



a better world
for a better tomorrow



GODFREY PHILLIPS
—INDIA LIMITED—

GODFREY PHILLIPS INDIA LIMITED

Four Square, 49, Community Centre, Friends Colony, New Delhi -110 065. Tel: +91-11-26836468, 26832155. Fax: +91-11-26840775, 26835803.

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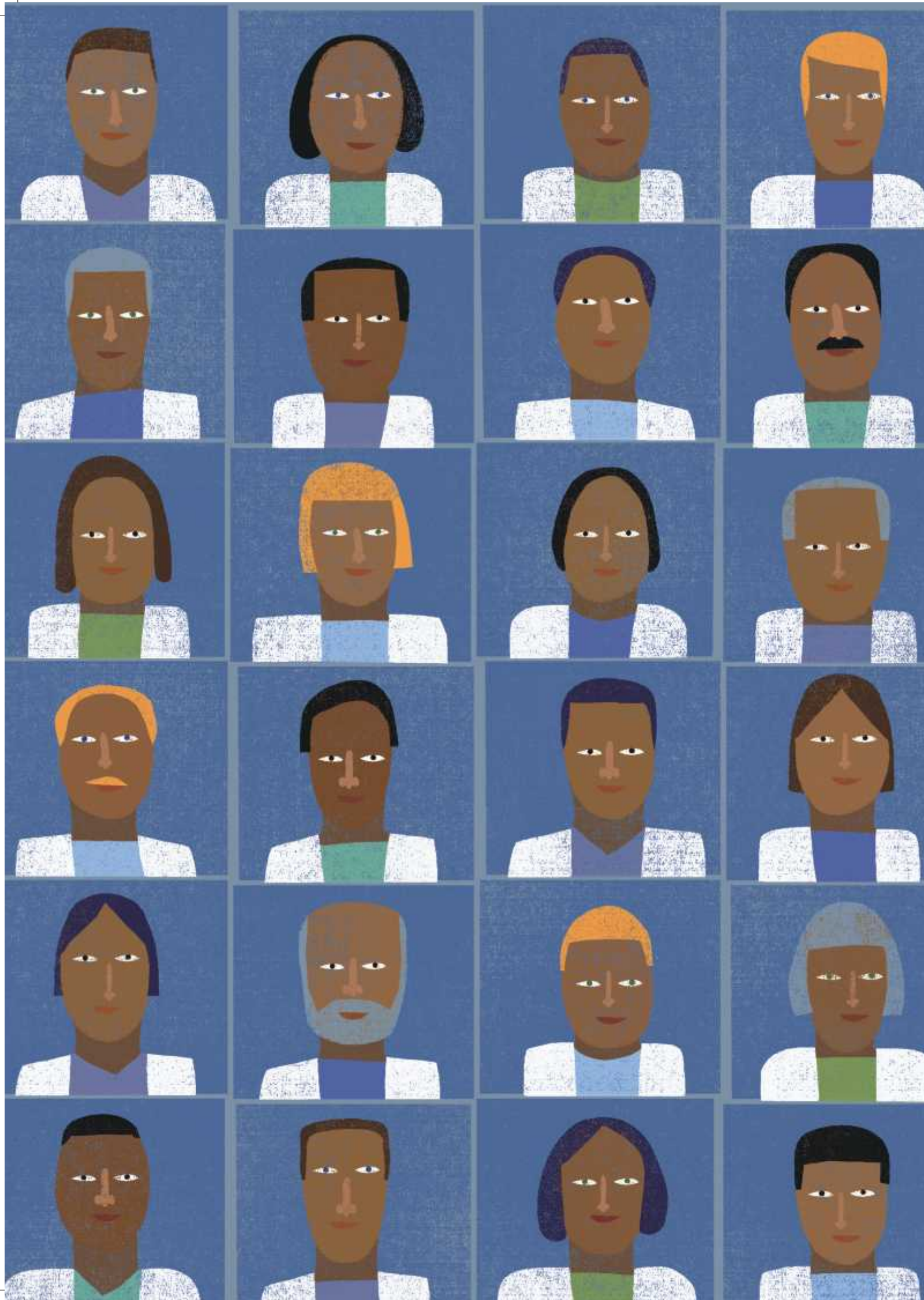
GODFREY PHILLIPS
—INDIA LIMITED—

Annual Report 2006-2007



a better world

Everyone in this world has different thoughts, approaches and convictions. Respect for ourselves as well as others is essential for harmony in society. Godfrey Phillips India's guiding philosophy imbibes this thought of 'Making our world a better place for a better tomorrow'. As a 'Socially Responsible Corporate Citizen', Godfrey Phillips India has made earnest efforts to fulfill the expectations of various stakeholders, employees, government and the society at large to make this world even better for the future.



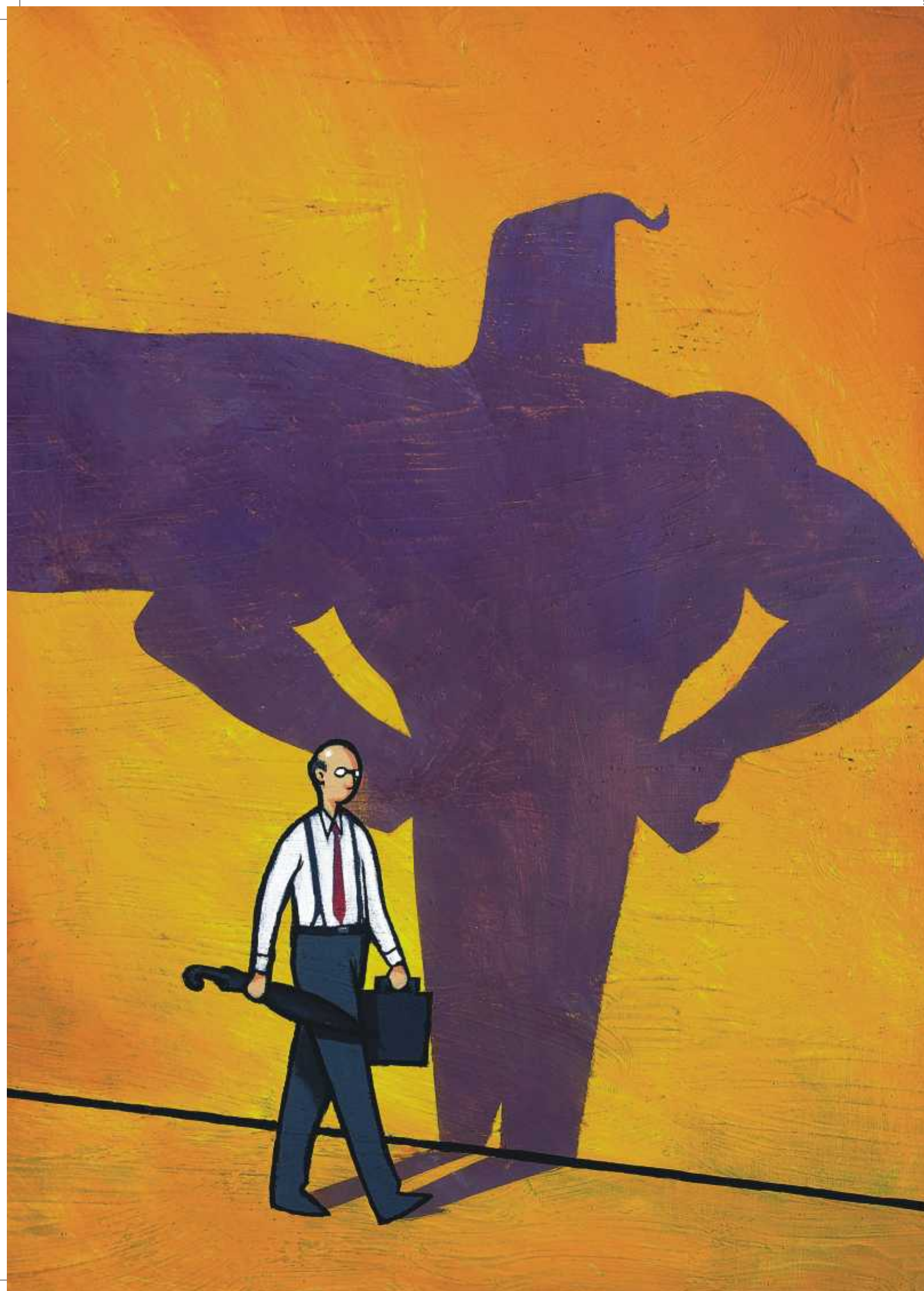
Caring and
being sensitive towards
each other ensures
a world conscious of
the effect of its actions
on others.



WHITE - A responsible smoking programme

Godfrey Phillips India believes in creating and fostering harmony by respecting the choices individuals make i.e. to smoke or not to smoke. This is the essence of WHITE - 'We Honour the Importance of Tobacco Etiquette'. Godfrey Phillips India believes in responsible tobacco consumption. The key focus is on cultivating smoking etiquette among smokers - to respect non-smokers' space. Initiated internally, this is something every member of the Godfrey Phillips India family adheres to. As a WHITE ambassador the individual actively propagates responsible smoking behaviour because as a 'Socially Responsible Corporate Citizen' Godfrey Phillips India believes in setting examples by practicing the change that one wants others to emulate.

GODFREY PHILLIPS
white
we honour the importance of tobacco etiquette



Placing
others before
self and making a
difference in their lives is
the dictum that governs
acts of bravery.
And its recognition.



Godfrey Phillips Bravery

There is a braveheart in every individual. Godfrey Phillips India salutes the extraordinary courage exhibited by ordinary people in selflessly protecting and saving others lives. Godfrey Phillips Bravery Award is the only award of its kind instituted by a corporate house that recognises the acts of common people; irrespective of their age, gender or faith. Over the years, the Award has grown both in terms of stature and eminence. And now with Preity Zinta as the Bravery Ambassador, the movement takes the message of bravery to the masses further increasing their involvement and widening its scope with two initiatives - Blood Donation and Women Empowerment.

The Blood Donation drive on 28th July 2006 in New Delhi where Preity Zinta, Bravery Ambassador herself donated blood was the beginning. Since then there have been 21 drives covering 8 states resulting in a collection of over 2,300 units of blood. Recently on World Blood Donor Day, 14th June 2007, Godfrey Phillips India conducted blood donation camps in Mumbai and Delhi. In Mumbai, Preity Zinta again donated blood to inspire and motivate others to do the same. The second initiative - Empowering Women, is aimed at making women economically self-sufficient and independent. This drive will help promote gender equality and redress power imbalances. Already a few NGOs of repute have joined hands with Godfrey Phillips India in this endeavour.





The vision to empower

at grassroots levels and
encourage better business
practices.

Helping raise better tobacco and higher yields

The Leaf Division at Godfrey Phillips India is committed to make tobacco cultivation remunerative for farmers by improving its quality and productivity. This is achieved by training the farmers and imparting technical know-how such as Good Agricultural Practices (GAP) from seed to marketing to optimise tobacco yield per hectare. The efforts bore fruit in 2006-2007 when Tobacco Institute of India felicitated many of the farmers adopted by Godfrey Phillips India.

Committed to work towards a better planet

Guldhar plant is totally committed to Environment Management and is ISO 14001:2004 (Environment Management System) certified. It has taken up water management initiative such as 100% recycling of water and rainwater harvesting. The plant has also undertaken the renewable energy initiative by installing solar power system and developed steam heated hot water generator system to replace the electrical system. Also, the plant has various automation and interlocking systems to save power.





Good business leaders

articulate, own and
drive the vision - we
create them.



Creating future leaders

Godfrey Phillips India values its people and has always believed that the growth of the Company is directly proportional to the growth of the people. The emphasis on this aspect is reflected in extensive training for employees, more focused research and development, higher efficiencies in the manufacturing processes that lead to better products and sustained growth.



Management Hierarchy Restructuring meets the challenges of manpower engagement and managing the employee aspirations of Career Enhancement & Development.

Potential Assessment System enables the company to identify budding potential managers within and across cross-functional lines and help create a resource inventory useful for upcoming needs of skills requirements.



Attrition Analysis & Action Planning focuses on attrition influencing factors and retention influencing factors of frontline managers and follows a customised approach towards intervention.

Active Listening Program enhances the overall communication skills of the sales team on a continuous basis to enable them to sharpen business skills of building better inter-personal relationships and influencing skills.

Compensation Restructuring provides options to employees to mould the salary components as per their needs and flexibility to plan their social status and tax management.

Six Sigma initiative

In the second wave of Six Sigma initiative, Godfrey Phillips India identified 29 projects across the organisation. The major contributors were Operations Sales, Commercial, Leaf & Marketing. The company additionally trained and certified 5 Black Belts and 13 Green Belts in Wave II selected across the functions. 17 projects have been successfully closed and the rest are due for closure shortly and the estimated savings for 7 projects is approx Rs. 2.76 crores.

Highlights:

- The Indian National Suggestion Schemes' Association (INSSAN) presented awards to Andheri factory, Mumbai team for its best suggestion/ideas during the various convention held on different topics and places for the record 9th consecutive year in a row.



INSSAN Award.

- Guldhar factory organised a training session of its workmen at G.D. in Bologna, Italy, to give them exposure on state-of-art technologies and machines. G.D is the world leader in designing and manufacturing of the fastest and most efficient cigarette making and packing lines and the only manufacturer capable of supplying complete high-speed lines, from the maker to the packer.



Workmen at G.D. in Bologna, Italy.

- The Guldhar factory won The 'Greentech Environment Excellence Awards' and 'Greentech Safety Awards', in the year 2006. These awards are the most coveted awards in corporate world for outstanding achievements in the field of environment management.



Greentech Environment Excellence Award.

- Tipper received the Golden Peacock Award for excellence in Product Innovation.



Golden Peacock Award to Tipper.

Elevating the brand experience through innovation.



Stellar - India's first slim cigarette

Stellar Slims is a reinforcement of the innovative spirit of Godfrey Phillips India. It is the first 'Slim Cigarette' to be launched in India. It has been specially engineered to deliver lower nicotine, without any compromise on the taste and flavour, delivering total satisfaction. It is available in a slim shaped 10's pack and an elegant 20's pack.

The brand has been appreciated by the consumers and the trade on account of its product quality and the excellent packaging.

Stellar is a brand aimed at the cognitive consumer who wants to be progressive and responsible in his habits and lifestyle.

I.gen - India's first Euro norm cigarette

This year, the commercial capital of India saw renewed excitement in the Premium Kingsize segment. I.gen - India's 1st Euro Norm 10-1-10 cigarette was introduced in Mumbai on 26th January 2007, with the promise of an advanced cigarette quality and unique style.

This progressive brand also introduced India's 1st king-size 5's pack, a convenient and stylish pack format for the young adult of today. Since then the brand has created a unique identity for itself in Delhi and Mumbai, receiving praises for its distinctive black pack and cigarette.



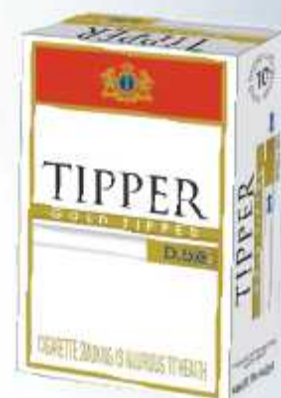
STATUTORY WARNING: CIGARETTE SMOKING IS INJURIOUS TO HEALTH



Enhancing the stature of iconic brands

Four Square has shown strong and consistent growth in the RSFT segment over the past five years. Specially created for foreign tourists and true connoisseurs, Jaisalmer the luxury cigarette brand has captured the imagination of visitors to India. Red & White continues building upon its iconic stature and strong emotional bond with loyal consumers. Cavanders, the oldest and most trusted brand has crossed the landmark of 350 million with Gold Leaf leading this segment on growth.

Also, Tipper has outperformed in the micro segment and once again lifted the Golden Peacock Award for excellence in Product Innovation. To top it all, North Pole became the number one menthol brand in the country.



Understanding the needs of the consumer and providing for it - leading the cigar market

Cigar volume grew by 48% in the last year, improving our market share to 65%. This has made Godfrey Phillips India, the country's first and only tobacco company to organise the fragmented cigar market in India and secure its position as the market leader in cigar distribution.

A feather in our cap has been a successful conclusion of an exclusive distribution agreement with Oettinger Davidoff International of Switzerland. We have launched the premium range of Davidoff - The Good Life cigars, Millennium Blend, Robusto Tubes and many more from this world famous series of cigars in India.

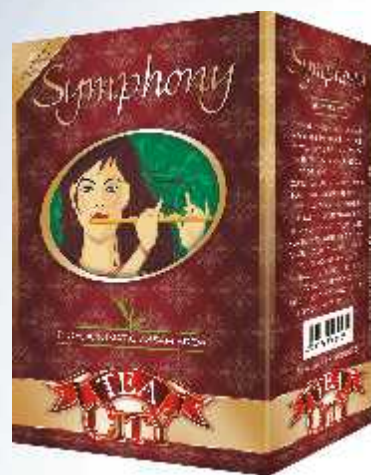
With Phillies, Hav-A-Tampa, Don Diego and other luxury cigar brands also receiving enthusiastic response from cigar aficionados due to the easy availability that Godfrey Phillips has ensured with a vast network of retailers and distributors, we have taken a step further. Encouraged by the keen response, we opened an exclusive cigar boutique at Hotel Park Plaza in Gurgaon, where one can find the choicest of super luxury hand-rolled and machine-made cigars and cigar accessories. The success of this boutique has given us the confidence to plan more such luxury retail outlets.

Thus, progressing towards realising the vision - "To make Godfrey Phillips India the destination for cigars in India".



STATUTORY WARNING: CIGARETTE SMOKING IS INJURIOUS TO HEALTH

STATUTORY WARNING: CIGARETTE SMOKING IS INJURIOUS TO HEALTH



Attractive consumer offers

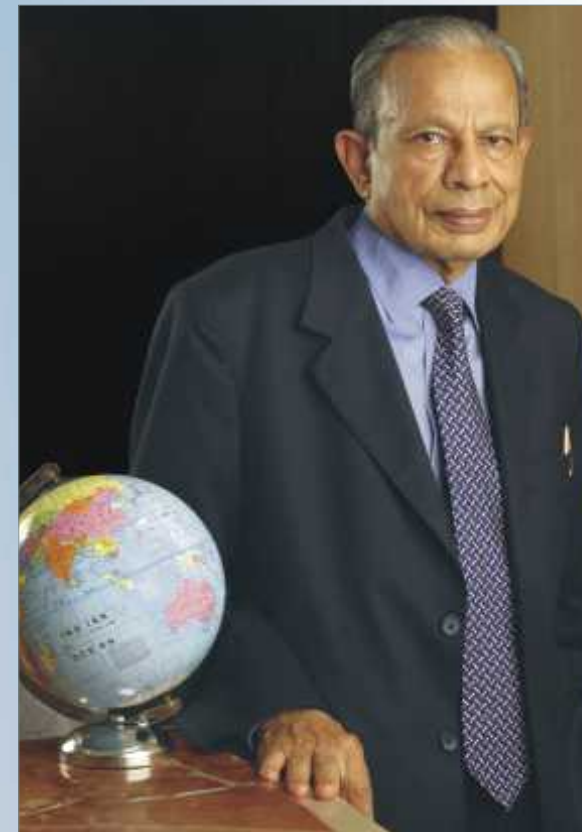
Valuing and respecting our consumer's inputs, our guiding philosophy for improvement and creativity

Heightening the flavour of Tea City

Tea City continued its promising growth with a high 17%, way ahead of the industry growth of 12%. This has been achieved by a highly successful launch of it's brands, leading to significant contributions from newly entered states of Andhra Pradesh, Rajasthan and Madhya Pradesh.

The year also saw a high decibel launch of the premium offering - Symphony in New Delhi. Apart from prominent brand visibility, customised Symphony experiences were shared with tea connoisseurs to promote the brand. A stylish, contemporary and premium look further helped in the creation of an extremely desirable image for Symphony amongst consumers in the upper segment.

All of this augurs well for the future of Tea City and it can only move from strength to strength with every passing year.



chairman's message

Dear Shareholder,

Your company has once again registered a double-digit growth in sales and healthy growth in profits. This is the result of our continuing thrust and focus on productivity and efficiency.

Invidious discrimination against the cigarette industry continues unabated. The stranglehold of regulatory control on the cigarette industry is being increasingly intensified. This year too, cigarettes have been singled out and an additional 6% excise duty levied for the second year in a row. In addition, 12.5% VAT is levied by the States on invoice price. The combined effect of both is equivalent to around 30% increase in tax incidence on cigarettes. Such a sharp increase in taxes and resultant increase in cigarette prices, will surely shift the demand to cheaper and revenue inefficient tobacco products such as, beedi and chewing tobacco, compelling farmers to cater to this demand. This is likely to undermine the livelihood of 38 million people of which over 75% are farmers and other rural folk.

While India grows 10% of the world's tobacco, its share of the US\$ 6.3 billion global tobacco leaves exports is a mere 3.5%. This is mainly due to the fact that exportable variety of tobacco - Flue Cured Virginia (which is used in cigarettes), accounts for only 35% of the total Indian production of tobacco. A strong and stable domestic base market is essential to make this possible, as it will encourage farmers to grow better quality and higher revenue yielding varieties, and also protect them against fluctuations in International demand.

R.A. Shah
Chairman



president's message

Dear Shareholder,

It gives me pleasure to report that your Company has registered a 11.5% growth from Rs. 1,431 crore last year to Rs. 1,596 crore this year. Net Profits grew from Rs. 59.76 crore to Rs. 88.9 crore. This success is the result of our commitment to consumer oriented initiatives, enhanced operational efficiencies, and adoption of internationally acclaimed business processes. What makes this success even bigger is that it has been achieved despite the severe regulatory environment and discriminatory taxation.

Living out of our Company's vision, to be a leading tobacco player in India and beyond, we have enhanced our tobacco portfolio; for cigar aficionado we launched Davidoff 'Good Life' range of Cigars; for discerning smokers, we launched India's first slim cigarette - Stellar and soon your company will foray into other tobacco products.

To take on the challenges of the future, the Company has taken many initiatives including restructuring besides continuous improvement in all its business processes and operating areas.

However, success imposes an even greater responsibility upon the Company as a responsible corporate citizen.

To ensure that the products are consumed in a most responsible manner, we have internally implemented WHITE - 'We Honour the Importance of Tobacco Etiquette', a first-of-its-kind initiative in India.

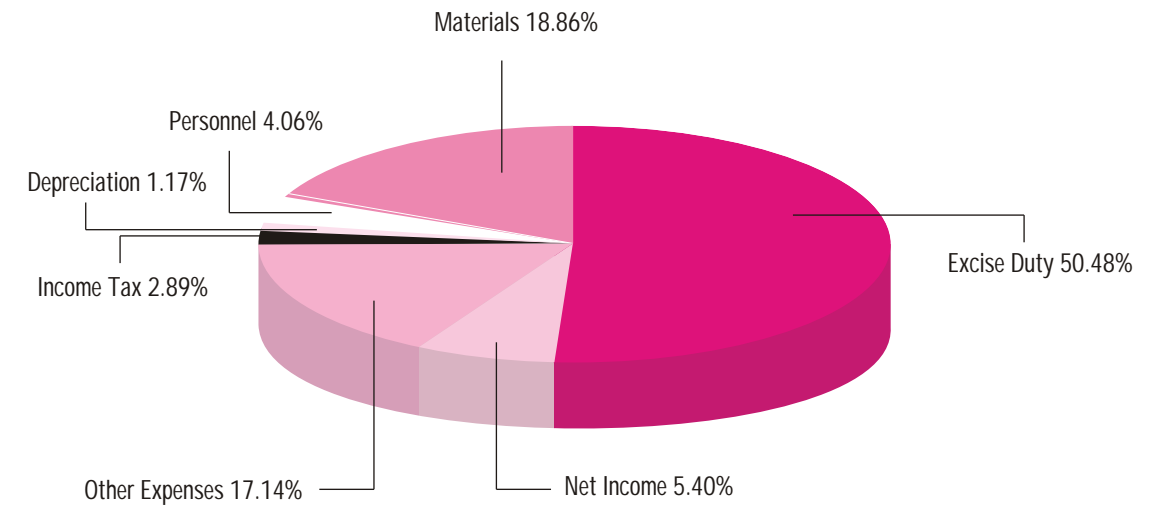
Over the years, Godfrey Phillips Bravery has also taken the form of a movement wherein initiatives like Blood Donation and Women Empowerment have been added to make a difference to society. The Blood Donation drive has been a huge success; having collected over 2,300 units of blood in a short span of 11 months. And, it's only the beginning.

As we move ahead, projects like these ensure that your Company looks beyond profits to embrace larger issues which help create a better world for a better tomorrow.

K.K. Modi
President

FINANCIAL HIGHLIGHTS

Revenue Distribution



Financial Highlights

Rs. in lacs

| | 2006-07 | 2005-06 | 2004-05 | 2003-04 | 2002-03 | 2001-02 | 2000-01 | 1999-2000 | 1998-99 | 1997-98 |
|------------------------------------|---------|---------|---------|---------|---------|---------|---------|-----------|---------|---------|
| CAPITAL EMPLOYED | | | | | | | | | | |
| Net Fixed Assets | 12655 | 12984 | 12920 | 8732 | 7413 | 7037 | 6987 | 6384 | 5155 | 2695 |
| Investments | 24627 | 21100 | 19916 | 14473 | 15636 | 12873 | 8080 | 7722 | 3968 | 3647 |
| Working Capital | 10962 | 9809 | 4513 | 6575 | 5429 | 8510 | 12041 | 8619 | 13069 | 10449 |
| Deferred Tax Assets (net) | - | - | 1576 | 1239 | 797 | - | - | - | - | - |
| Total | 48244 | 43893 | 38925 | 31019 | 29275 | 28420 | 27108 | 22725 | 22192 | 16791 |
| FINANCED BY | | | | | | | | | | |
| Shareholders' Funds | 41815 | 36046 | 32701 | 28950 | 25966 | 24170 | 21597 | 18775 | 16239 | 13021 |
| Borrowings | 6073 | 7439 | 6224 | 2069 | 3309 | 4029 | 5511 | 3950 | 5953 | 3770 |
| Deferred Tax Liabilities (net) | 356 | 408 | - | - | - | 221 | - | - | - | - |
| Total | 48244 | 43893 | 38925 | 31019 | 29275 | 28420 | 27108 | 22725 | 22192 | 16791 |
| OPERATING PERFORMANCE | | | | | | | | | | |
| Gross Revenue | 163277 | 145712 | 132538 | 120219 | 109639 | 96002 | 100439 | 109408 | 106249 | 102355 |
| Excise Duty | 82423 | 76176 | 61021 | 55769 | 52085 | 47049 | 44375 | 57193 | 55639 | 55996 |
| Depreciation | 1907 | 1837 | 1655 | 995 | 913 | 811 | 769 | 551 | 447 | 211 |
| Profit Before Taxation | 13523 | 9969 | 9995 | 7649 | 5690 | 7184 | 7237 | 6386 | 6808 | 5935 |
| Profit After Taxation | 8810 | 6013 | 6360 | 5218 | 3791 | 4780 | 4656 | 4210 | 4603 | 3885 |
| Dividend | 2600 | 2340 | 2288 | 1976 | 1768 | 1924 | 1664 | 1508 | 1248 | 1040 |
| Corporate Dividend Tax | 442 | 328 | 321 | 258 | 227 | - | 170 | 166 | 137 | 104 |
| Retained Earnings | 5768 | 3345 | 3751 | 2984 | 1796 | 2856 | 2822 | 2536 | 3218 | 2741 |
| INVESTORS' DATA | | | | | | | | | | |
| Earning Per Equity Share (Rs) | 84.73 | 57.82 | 61.16 | 50.18 | 36.45 | 45.96 | 44.77 | 40.48 | 44.27 | 37.36 |
| Dividend Per Equity Share (Rs) | 25.00 | 22.50 | 22.00 | 19.00 | 17.00 | 18.50 | 16.00 | 14.50 | 12.00 | 10.00 |
| Book Value Per Equity Share (Rs) @ | 399.84 | 344.37 | 312.20 | 276.12 | 247.43 | 230.15 | 205.42 | 178.27 | 153.89 | 122.94 |
| Number of Shareholders | 12740 | 11261 | 11719 | 12539 | 13068 | 13198 | 13797 | 14004 | 15557 | 16994 |

@ Excluding Revaluation Reserve

DIRECTORS' REPORT

DIRECTORS' REPORT & MANAGEMENT DISCUSSION AND ANALYSIS

Your Directors deem it a privilege to present the Annual Report and Accounts for the year ended March 31, 2007.

It is reassuring to be able to report a commendable growth during the year 2006-2007, even in the face of the roadblocks your company encounters, being particularly in an industry that remains increasingly bedevilled by the spectre of discriminatory taxation on the one hand, and increasingly crippling regulations in conducting its business, on the other.

As we take strides to attain greater heights of business, we remain alive to the imperatives of our responsibilities in equal measure.

As part of our continuing commitment to doing business with conscience, we have been able to integrate increasing shareholder value with ideals of addressing social issues encompassing a larger canvas of collaborative stakeholders' concerns. The launch of Godfrey Phillips WHITE (We Honour the Importance of Tobacco Etiquette) - a responsible smoking programme, the very first in India is yet another initiative in this direction. The campaign WHITE humbly seeks to address the concerns of non-smokers, while protecting the interest of those who have made an informed choice to smoke.

Godfrey Phillips Bravery - now in its 17th year, not only awards individuals for their selfless acts of physical bravery, but also for mental strengths of courage and conviction (mind of steel). Activities like Blood Donation Drive and Woman Empowerment through vocational training complement the Bravery initiatives.

GENERAL ECONOMIC ENVIRONMENT

India's economy is witnessing robust growth. The real GDP is estimated to grow at 9.2 % in the year 2007-2008, surpassing the expectations on most counts, with the average GDP growth at 8.7% in the last three years.

Infact, considering any set of indices, the Indian economy has come of age and looks distinctly upbeat and confident. While the industrial sector growth at 10% is the highest in this decade, the services sector too continues to grow around eleven percent.

The Foreign Exchange reserves of the country have topped US\$ 200 billion: the exports were over US\$ 125 billion in the last fiscal year, with US\$ 160 billion as the target for the current year. The Sensex recently breached the 15,000 mark, FDI inflows touched US\$ 17 billion during the year 2006-2007, and is expected to grow to US\$ 30 billion mark in the current year.

Agriculture, which supports the livelihood of over 70% of the rural population, and contributes almost a quarter to the GDP, recorded a modest growth of 2.7% as against 6% last year, and continues to be an area of concern. There is no denying the fact that the growth, in order to be real and sustainable, has to be 'inclusive'.

Tobacco Industry in India and its Potential:

Taxation:

As per the Tobacco Atlas, 2006, published by WHO, India has the lowest per capita consumption of cigarettes: 85 cigarettes per annum as compared to 2920 in Japan, 1886 in the USA, 488 in Nepal and 243 in Bangladesh. Cigarettes in India account for only 15% of the total tobacco consumption, and contribute over 85% of the total excise tax revenues. In the 2006-2007, the tobacco sector contributed over Rs. 9000 crore in excise duties, with cigarettes contributing an additional Rs. 450 crore in State Taxes.

On Cigarettes six percent excise duty was levied second year in a row. Additionally, discounting the Task Force on Indirect Taxes Report (December 2002), which recommended the continuation of AED and exclusion of cigarettes from Value Added Tax (VAT), effective April 1st 2007, VAT has been levied by the States at a rate of 12.5% on the invoice price, with no reduction or set-off of other State level Sales Tax in lieu of VAT. The resultant impact of a 6% increase in excise and a 12.5% VAT is equivalent to around 30% increase in tax incidence on cigarettes. This is despite the fact that the incidence of excise duty in India is as high as 50% of the product price, which is even higher than in China (40%).

Regulatory Environment

Besides mandatory licensing, punitive ad-valorem taxation, cigarette industry operates in an inequitable regulatory environment.

By way of setting the ground for a new amendment to The Cigarettes and Other Tobacco Products Act 2003 (COTPA), the Union Cabinet has given its approval for promulgation of ordinance, making the depiction of the skull and cross bones in packaging of all tobacco products as optional.

As a responsible corporate citizen, your company has been abiding by the law, in letter and in spirit, and will continue to fulfil its commitment as a responsible tobacco manufacturer.

Maximizing Potential of Tobacco Sector

In a country like India, where the livelihood of 38 million people is linked to tobacco, and where tobacco contributes over Rs. 9,450 crore in taxes, only a cohesive strategy can help maximize the economic value of tobacco, ensuring optimal returns for the farmers and farm workers. Keeping in mind, India's unique and fragmented pattern of tobacco consumption, this can be achieved through: a) Farmers and initiatives to improve productivity; b) an equitable Tobacco

Taxation Policy and c) preventing small Units from misusing the provisions of ID&R Act, 1951.

Tobacco provides direct and indirect employment to 38 million people, around 75% of whom are in the agricultural sector. Although India grows 10% of the world's tobacco, its share of the US\$ 6.3 billion global tobacco leaf exports is a mere 3.5%. This is mainly due to the fact that the exportable variety of tobacco - FCV (Flue Cured Virginia), accounts for only 35% of the total Indian production of tobacco. If India can align its production pattern to favour FCV variety and manages to garner a proportionate share of the export trade, it can clock a turnover of Rs. 2,800 crore - thrice the present levels.

To achieve this, a strong and stable domestic base market is essential, as it will encourage farmers to grow better quality and higher-revenue yielding varieties, and also protect them against fluctuations in International demand. Modernization of tobacco consumption and production patterns in India - i.e. moving from traditional tobaccos to cigarette tobaccos - would enable India to emulate the performance of Brazil, which with similar production base, currently earns US\$ 1.7 billion from exports of tobacco and tobacco products (Source: The Tobacco Institute of India).

Total exports of tobacco products stand at Rs. 14,134 million in FY2006, accounting for 0.3% of India's total exports. While in absolute numbers, the exports of tobacco have increased marginally, in comparative terms to the total exports, tobacco has a declining share. This is primarily due to the sharp decline in the export share of unmanufactured tobacco and lower consumption in the developed world. However, the overall scenario for tobacco exports looks promising keeping in view the shift in the U.S. from tobacco farming, withdrawal of subsidies from tobacco plantation in European countries and the political instability in Zimbabwe collectively offering a very high potential for exports of tobacco from India provided we come up with higher qualities and better flavourful varieties of tobacco.

Indian FCV tobacco is amongst the cheapest in the world market. Further, by virtue of absence of any governmental protection for this crop, unlike in many tobacco-producing countries, Indian FCV tobacco requires an edge in the competitive export market. Indian FCV tobacco is the least protected and therefore, needs more favourable terms of trade. India has yet to make its presence felt in the exports market for cigarettes, even though its volume has increased in absolute terms from Rs. 565 million in FY2001 to Rs. 1,552 million in FY2006. The tobacco-related export basket remains dominated by unmanufactured tobacco and all efforts should be made by the Government and the exporters to secure removal of restrictions on export of Indian tobaccos to the U.S.A..

SEGMENTWISE PERFORMANCE IN 2006-2007

Cigarettes

During the year under review there was an overall improvement in sales volume of the Company's cigarette brands compared to that in the previous year. In value terms the domestic cigarette sales were higher at Rs. 1460 crore compared to Rs. 1324 crore in the previous year giving an increase of 10%. Cigarette exports were higher at Rs. 11.49 crore compared to Rs. 8.55 crore in the previous year registering a significant increase of 34%.

The Company launched two new brands 'Stellar' and 'Champ' in the domestic market and a few others in the export markets.

In the first quarter of the current financial year the domestic cigarette sales were higher at Rs. 379 crore as against Rs. 361 crore in the corresponding quarter last year.

Tea

During the year under review the domestic tea sales were higher at 3560 tonnes valued at Rs. 47.46 crore compared to 3050 tonnes valued at Rs. 39.26 crore in the previous year. The Company thus registered an increase of 17% (way ahead the Industry growth of 12%) in volumes and 21% in terms of value for the year under report compared to that in the previous year.

The process of integration of tea distribution with that of cigarette distribution started a year ago and has been bringing in better result in terms of distribution and sales and your Directors are confident of achieving higher turnover of tea in future.

Tea City, a diversified offering under the Godfrey Phillips banner, has seen a progression in all spheres including dynamic marketing initiatives, packaging makeovers, effective Sales & distribution, technology and product up-gradations, to define a more contemporary culture and mission for Tea City.

During the year the volume growth has been garnered through brand introduction in modern formats and increased contributions from newly entered states of Andhra Pradesh, Rajasthan and Madhya Pradesh.

This year, Symphony, a premium offering from Tea City has seen a complete launch in Delhi. Symphony with a more contemporary and premium look has created a hi-decilb impact. Apart from prominent brand visibility, customized Symphony experiences were shared with consumers to publicize the new Symphony launch.

During the first quarter of the current financial year the Company has been able to achieve tea sales in the domestic market of Rs. 10.69 crore as compared to Rs. 9.69 crore during the corresponding quarter last year.

DIRECTORS' REPORT

Exports

The following table shows the status of exports for different products during the year under report :

| Commodity/Product | 2006 - 2007 Value (Rs. in crore) | 2005 - 2006 Value (Rs. in crore) |
|------------------------------|-------------------------------------|-------------------------------------|
| Tobacco and tobacco products | 75.64 | 55.43 |
| Tea | 4.10 | 5.96 |

The shareholders would be pleased to notice from the figures as above, significant improvement in the Company's performance during the year under review compared to the previous year. The head 'Tobacco and tobacco products' as above includes raw tobacco, cut tobacco and cigarettes. While cigarette exports in terms of value were higher by 34% the cut tobacco exports were significantly higher by 716% compared to that in the previous year. The Company's exports of cut tobacco now goes to many countries.

The expansion of distribution of the Company's own brand 'Force 10' in West Africa has given encouraging results. The Company's brand 'Originals International' was successfully launched in November 2006. Test marketing of 'Ultima' brand has been completed with encouraging results in the COMESA region. The Company successfully opened new export markets in South East Asia and Middle East for supply of cut tobacco and cigarettes.

However, the decline in unmanufactured tobacco exports has been primarily due to lack of sufficient orders from one of the long associated merchant companies. The Company is making all out efforts to increase direct exports through development of a wider customer base. Business relations are being established in Philippines and Brazil besides appointment of agents in many countries including Netherlands and Philippines. With these measures, the company is confident of achieving higher tobacco export sales in the coming years.

During the first quarter of the current financial year ended 30th June, 2007 the performance of the major business segments was as hereunder :

| Commodity/ Product | Value (Rs. in crore) |
|------------------------------|-------------------------|
| Tobacco and tobacco products | 15.65 |
| Tea | 0.81 |

Cigar

During the year under review, sales were higher by 44% at Rs. 3.31 crore as against Rs. 2.29 crore for the previous year. The increased sales led to our market share going up to 65%.

The Company continues to expand the cigar portfolio both in machine made and hand rolled segments. Cigars from Altadis USA are gaining popularity and all the brands, Phillies, Hav-A-Tampa, Don Diego, Santa Damiana and Flor De Copan have shown robust growth, with flavoured cigars growing in demand.

In keeping with the increasing demand of hand-rolled and machine made cigars, the Company successfully concluded an exclusive distribution agreement with Oettinger Davidoff International of Switzerland, and launched the premium range of Davidoff - The Good Life cigars, Millennium Blend Robusto Tubes, Davidoff - Tubo no. 2, Special R, world famous Grand Cru series, Exquisitos, Demitasse, and cigarillos. These fine quality cigars have been introduced in Delhi, Mumbai, Bangalore, Hyderabad, Chennai, Jaipur, Udaipur, Jodhpur and Cochin, and receiving enthusiastic response from the cigar aficionados.

With the growth in its portfolio, the Company is presently distributing cigars in 55 cities.

Godfrey Phillips has also opened a cigar shop in the Park Plaza in Gurgaon which stocks cigars and cigar accessories manufactured and supplied by different companies associated with the Company. The shop clientele has been growing and the initiative by the Company has been appreciated by the consumers.

Our efforts to distribute cigars in the Horeca and Modern Trade are helping us to create the awareness and right image, resulting in improved sales of these aspirational life style brands.

TREASURY OPERATIONS

The Company has been deploying its surplus funds, generated on an ongoing basis, primarily in debt oriented schemes of different reputed mutual funds. Since the pure debt funds are exposed to the interest rate volatility prevailing in market, for quite sometime now the Company has been investing further surplus funds in Fixed Maturity Plans offered by different mutual funds. As on 31st March, 2007 out of total investments of Rs. 246 crore, an aggregate amount of Rs. 144 crores stood invested in Fixed Maturity Plans of different mutual funds.

As in previous years the Company continued to invest its temporary surplus funds in liquid/short term schemes of different mutual funds.

During the year under report the Company also invested a small part of its long term surpluses in some of the equity schemes offered by the mutual fund houses. The Board of Directors felt that the Company could take advantage of the equity market by way of a limited exposure with the objective to obtain higher overall returns on its investments.

The Company booked an aggregate amount of profit of Rs. 22.30 crore on sale/redemption of long as well as short term investments in mutual funds during the year under review.

FINANCIAL PERFORMANCE

| FINANCIAL RESULTS | 2006-2007 Rs. in lac | 2005-2006 Rs. in lac |
|--|---|------------------------------|
| Gross Profit | 15188.87 | 10942.26 |
| Less: Depreciation | 1906.58 | 1837.20 |
| Profit before taxation and exceptional items | 13282.29 | 9105.06 |
| Add: Exceptional items (Refer Note 14 to accounts) | 240.59 | 864.30 |
| Profit before taxation | 13522.88 | 9969.36 |
| Less: Provision for Taxation | - current - deferred tax - fringe benefit tax | 4071.00 (52.52) 693.98 |
| | | 1307.35 1984.30 664.75 |
| Profit after tax for the year | 8810.42 | 6012.96 |
| Profit Brought Forward | 23009.36 | 21064.27 |
| | 31819.78 | 27077.23 |
| Appropriations | | |
| Proposed Dividend | 2599.70 | 2339.72 |
| Corporate Dividend Tax | 441.82 | 328.15 |
| Transfer to General Reserve | 1500.00 | 1400.00 |
| Surplus carried to Balance Sheet | 27278.26 | 23009.36 |
| | 31819.78 | 27077.23 |

The overall sales turnover comprising of cigarettes, tobacco, cigar and tea was higher at Rs. 1597 crore as against Rs. 1432 crore in the previous year, registering an increase of more than 11%. After providing for the taxation, the net profit of the Company was higher at Rs. 88.10 crore as against Rs. 60.13 crore in the previous year.

DIVIDEND

Keeping in view the Company's improved overall performance for the year under report the Board of Directors of the Company are pleased to recommend a higher dividend of Rs. 25.00 per share as against Rs. 22.50 per share paid for the previous year.

INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

Your Company has an adequate system of internal control commensurate with the size of the Company and the nature of its business which ensures that transactions are recorded, authorised and reported correctly apart from safeguarding its assets against loss from wastage, unauthorised use and disposition.

The internal control system is supplemented by well documented policies, guidelines and procedures, an extensive programme of internal audit by a firm of chartered accountants and management reviews is in place.

HUMAN RESOURCE DEVELOPMENT

A summary of few significant developments through various initiatives implemented and planned are as under:

- The Company has done a restructuring of management hierarchy to meet industrial challenges of Manpower engagement and managing the employee aspirations of Career enhancement and development. The new structure offers a concise set of broad-bands that allows flexibility of inter-band reporting and a framework for upward career movement.
- The new compensation structure provides greater flexibility to Managers to plan their emoluments and tax management as per their needs.
- Potential Assessment System has been introduced as an initiative towards mapping and developing the potential of Managers. The system enables the Company to identify budding potential with-in and across cross-functions and helps to create a resource inventory useful to meet the future needs of the Company.

CORPORATE DEVELOPMENT AND INFORMATION TECHNOLOGY

Some of the key initiatives taken by the Corporate Development and Information Technology Department during the year under report may be summarized as under :

- The Oracle E-Business Suite was selected for implementation of Enterprise Resource Planning (ERP) in the Company.
- Sales analysis tools using Business Intelligence for deeper analysis and productivity savings of the sales team was implemented.
- Tools for workflow management was implemented in Research & Development, Sales and Finance functions of the Company.

It is hoped that the initiatives/measures taken as above would help the Company to increase its quality, productivity and efficiency besides enlarging the portfolio of tobacco products.

DIRECTORS' REPORT

CONSERVATION OF ENERGY

During the year under report, the measures initiated/implemented by the Company for conservation of energy included the following main items :

1. Fitted energy efficient motor for WV60 vacuum pump and Variable Frequency Drive (VFD) for fan motor of cigarette making machines resulting in saving of Rs. 1.1 lac per annum.
2. As a part of Six Sigma initiative, a Black Belt project was taken up for energy conservation measures. This would result in saving of Rs. 4.5 lac per annum on completion of the various improvement measures.

TECHNOLOGICAL ABSORPTION, ADOPTION AND INNOVATION

The measures initiated/implemented during the year under report are :

1. State of art Hinge Lid Packer (HLP) machine for 20s King Size cigarette packer was installed and commissioned, which helped in improving productivity and quality of cigarette packs for domestic and export markets.
2. Set up In-house conversion of existing cigarette making and packing machines, on Slim cigarettes facilitating the introduction of brand 'Stellar' in the domestic market.
3. In-house development, installation and commissioning of BOPP print registration system on packing machines facilitating value addition to our consumer.
4. New Generation Quantum Programming Logic Control (PLC) was introduced in Primary Manufacturing Department to improve processing parameters and consistency.

Research & Development

New Development

1. Development of new products with special emphasis to create differentiation.
2. Development of several brands/blends both Virginia as well as US Blended type.

Benefits derived as a result of this Development

1. Launched new brands in domestic and export markets.
2. Differentiated and value added products in the domestic market.

Future Plan of Action

1. Intensifying research work differentiated on cigarettes with various benefits. Enlarging focus on development of value added and differentiated products for meeting the changing needs of the domestic and international consumers.
2. Development of low tar and nicotine delivery products.
3. Up-gradation of analytical facility to meet future challenges.

FOREIGN EXCHANGE EARNINGS AND OUTGO

The earnings in foreign exchange during the year under report by way of exports and other income amounted to Rs. 80.62 crore (previous year Rs. 61.87 crore) as against the foreign exchange outgo on imports, dividends and other expenditure aggregating to Rs. 43.08 crore (previous year Rs. 35.23 crore).

FIXED DEPOSITS

At the end of the financial year, the balance on account of Fixed Deposits accepted from the Public and Members stood at Rs. 1,27,000/- which included 11 deposits totaling Rs. 1,27,000/- not claimed on due dates. Out of these, the amount of 1 deposit of Rs. 6000/- was transferred to the credit of Investor Education and Protection Fund and 1 deposit of Rs. 10,000/- has since been repaid, leaving a balance of Rs. 1,11,000/- comprising of 9 deposits awaiting claims from the concerned depositors.

Presently the Company is neither accepting fresh deposits nor renewing the existing ones as it is no longer economical for the Company to raise moneys through this mode of finance.

DIRECTORS

Mr. R.A. Shah, Mr. O.P. Vaish and Mr. Anup N. Kothari, Directors, will retire by rotation at the forthcoming Annual General Meeting and, being eligible, have offered themselves for re-election.

DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to the requirement under Section 217(2AA) of the Companies Act, 1956 with respect to Directors' Responsibilities Statement, it is hereby confirmed :

- (i) That in the preparation of the Annual Accounts for the financial year ended March 31, 2007, the applicable Accounting Standards had been followed;
- (ii) That the directors had selected such Accounting Policies and applied them consistently and made judgements and estimates that were reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit of the Company for the year under review;
- (iii) That the directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- (iv) That the directors had prepared the accounts for the financial year ended March 31, 2007 on a 'going concern' basis.

CORPORATE GOVERNANCE

The Company is committed to maximise the value of its stakeholders by adopting the principles of good Corporate Governance in line with the provisions of law and in particular those stipulated in the Listing Agreement with the stock exchanges. It encourages wide participation from all stakeholders. Its objective and that of its management and employees is to manufacture and market the Company's products in a way so as to create value that can be sustained over the long term for consumers, shareholders, employees, business partners and the national economy in general. Constant innovation in its operations across all the locations of the Company is an ongoing effort so as to obtain higher efficiencies.

A certificate from the auditors of your company regarding compliance of the conditions of Corporate Governance as stipulated in clause 49 of the Listing Agreement with stock exchanges, is enclosed.

A certificate from Mr. K.K. Modi, Managing Director as the Chief Executive Officer (CEO) and Mr. R.N. Agarwal, Executive Vice President - Finance as the Chief Financial Officer in relation to the financial statements for the year ended March 31, 2007 along with a declaration of compliance with the code of business conduct of the Company by the Directors and the members of the senior management team of the Company during that year from the CEO were submitted to the Board in compliance with the requirement under clause 49 of the Listing Agreement with the stock exchanges and the same were taken note of.

CONSOLIDATED FINANCIAL STATEMENTS

In accordance with Accounting Standard 21 - Consolidated Financial Statements, Group Accounts form part of this Report & Accounts. These Group accounts have been prepared on the basis of audited financial statements received from the Subsidiary Companies and an Associate Company, as approved by their respective Boards.

AUDITORS

A.F. Ferguson & Co., Chartered Accountants, the retiring Auditors, have offered themselves for re-appointment as Auditors for the Head Office as well as branch offices at Ahmedabad, Mumbai, Kolkata, Ghaziabad, Guntur, Hyderabad, New Delhi and Chandigarh.

SUBSIDIARY COMPANIES

The Reports and Accounts of the subsidiary companies are annexed to this Report along with the statement pursuant to Section 212 of the Companies Act, 1956. However, in the context of mandatory requirement to present consolidated accounts, which provides members with a consolidated position of the Company including subsidiaries, at the first instance, members are being provided with the Report and Accounts of the Company treating these as abridged accounts as contemplated by Section 219 of the Companies Act, 1956. Members desirous of receiving the full Report and Accounts including the Report and Accounts of the subsidiaries will be provided the same on receipt of a written request from them. This will help save considerable cost involved in printing and mailing of the Report and Accounts.

GENERAL

As required by the provisions of Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, as amended, the names and other particulars of employees are set out in the annexure to the Directors' Report. However, as per the provisions of Section 219(1)(b)(iv) of the Act, the Report and Accounts are being sent to all shareholders of the Company excluding the aforesaid information. Any shareholder interested in obtaining such particulars may write to the Company Secretary.

EMPLOYEES

The relations with the employees of the Company continue to be cordial and the Directors wish to record their appreciation of their dedicated services at all levels of operations in the Company.

CONCLUSION

Your Directors look forward to the future with confidence and optimism.

Respectfully submitted
on behalf of the Board

Mumbai
Dated : July 31, 2007

R.A. SHAH
CHAIRMAN

BOARD OF DIRECTORS

- R.A. Shah - Chairman
- K.K. Modi - President
- L.K. Modi - Executive Director
- Samir Kumar Modi - Executive Director
- Lalit Bhasin
- Anup N. Kothari
- C.M. Maniar
- O.P. Vaish
- S.V. Shanbhag - Whole-time Director

COMPANY SECRETARY

R. Joshi

AUDITORS

A.F. Ferguson & Co.

INTERNAL AUDITORS

Lodha & Co.

SOLICITORS

Crawford Bayley & Co.

BANKERS

- State Bank of India
- Bank of Baroda
- Bank of India
- Citibank N.A.
- State Bank of Hyderabad
- State Bank of Travancore
- The Hongkong and Shanghai Banking Corporation
- Union Bank of India

REGISTRARS AND TRANSFER AGENT

Sharepro Services (India) Pvt. Ltd.
Satam Estate, 3rd Floor
(Above Bank of Baroda)
Cardinal Gracious Road,
Chakala, Andheri (E)
Mumbai - 400099

CORPORATE OFFICE

49, Community Centre, Friends Colony
New Delhi - 110025

OTHER OFFICES

Ahmedabad, Chandigarh, Ghaziabad, Hyderabad,
Kolkata, Mumbai, New Delhi

LEAF DIVISION

Guntur (Andhra Pradesh)

REGISTERED OFFICE

Chakala, Andheri (E), Mumbai - 400099

GODFREY PHILLIPS INDIA LIMITED

Report on Corporate Governance for the year ended March 31, 2007

The Directors present the Company's Report on Corporate Governance

1. THE COMPANY'S GOVERNANCE PHILOSOPHY

GPI's Corporate Governance initiatives are devised for achieving basic objective of wealth creation for the benefit of all its stakeholders namely the shareholders, employees, business associates and the society at large. The Company believes in giving its executives ample freedom to operate and secure the Company's target by putting in best of their efforts.

The Board of Directors is primarily responsible for protecting and enhancing shareholders' value besides fulfilling the Company's obligations towards other stakeholders. The role of the Board of Directors is to provide strategic superintendence over the Company's management. The day to day management of the Company is vested in the managerial personnel and sufficient authority is delegated at different operating levels. Delegation of authority in the operating people helps generation of creativity and innovation. This also helps in harnessing potential of employees to the best advantage of the Company.

2. BOARD OF DIRECTORS

i) Composition

The Board of Directors of the Company consists of executive and non-executive directors and more than half of the Board comprises of non-executive directors. The non-executive directors are independent professionals drawn from amongst persons with experience in business/law/finance. At present the total strength of the Board of Directors is nine out of which five are non-executive Directors. The Chairman of the Board is a non-executive director and the minimum requirement of one-third of the Board consisting of independent directors is duly complied with. The non-executive directors of the Company have already submitted their declarations affirming their status as independent directors as on March 31, 2007.

ii) Attendance at the Board Meetings and the last Annual General Meeting, directorships and memberships/chairmanships of Board Committees of other Companies

| Director | Executive/Non-Executive Independence | No. of Board Meetings attended | Attendance at last AGM | Membership/chairmanship of Board of other Companies* as at March 31, 2007 | Membership/Chairmanship of other Board Committees# as at March 31, 2007 |
|----------------------|--------------------------------------|--------------------------------|------------------------|---|---|
| Mr. R. A. Shah | Non-Executive & Independent | 6 | Yes | 13 (includes 2 as Chairman and 1 as Vice-Chairman) | 8 (includes 5 as Chairman) |
| Mr. K.K. Modi | Executive | 5 | Yes | 12 | 2 (includes 1 as Chairman) |
| Mr. S.V. Shanbhag | Executive | 5 | Yes | 4 | None |
| Mr. Lalit Bhasin | Non-Executive & Independent | 3 | No | 9 | 4 |
| Mr. Anup N. Kothari | Non-Executive & Independent | 6 | Yes | 2 | None |
| Mr. Lalit Kumar Modi | Executive | 3 | Yes | 9 | 1 (as Chairman) |
| Mr. C.M. Maniar | Non-Executive & Independent | 5 | Yes | 10 | 9 (includes 1 as Chairman) |
| Mr. O.P. Vaish | Non-Executive & Independent | 6 | Yes | 4 | 1 |
| Mr. Samir Kumar Modi | Executive | 4 | Yes | 9 | 1 |

* Excludes directorships in private limited companies, foreign companies, alternate directorships and also memberships of Managing Committees of various chambers/bodies.

Represents memberships/chairmanships of Audit Committee and Shareholders/Investors Grievances Committee (excluding private companies).

iii) Board Meetings held during the year

During the year 2006-07, six Board Meetings were held on the following dates:

May 15, 2006, June 30, 2006, July 29, 2006, September 8, 2006, October 25, 2006 and January 30, 2007. The meeting held on January 30, 2007 was adjourned and held on February 2, 2007 to transact the remaining items of the business.

In addition to the regular business items, other information as applicable pursuant to the requirements under the Listing Agreement with the Stock Exchanges were placed before the Board.

iv) The details of pecuniary relationship or transactions of the non-executive directors vis-a-vis the Company are given below:

| Name of the director | Amount involved (Rs. in lacs) | Nature of transaction |
|---|-------------------------------|--|
| 1. Mr. R.A. Shah & Mr. C.M. Maniar (Senior Partners of Crawford Bayley & Co.) | 11.29 | Payment for professional services to Crawford Bayley & Co. |
| 2. Mr. Lalit Bhasin (Proprietor of Bhasin & Co.) | 2.28 | Payment for professional services to Bhasin & Co |
| 3. Mr. O.P. Vaish (Relatives of Mr. Vaish are partners in Vaish Associates) | 11.09 | Payment for professional services to Vaish Associates |

v) Brief resume, experience and other directorships/board committee memberships

As per the Articles of Association of the Company, one-third of the total strength of the Board (i.e. three directors at present namely Mr. R.A. Shah, Mr. Anup N. Kothari & Mr. O.P Vaish) shall retire by rotation at the forthcoming Annual General Meeting of the Company and being eligible shall be re-appointed subject to shareholders' approval.

GODFREY PHILLIPS INDIA LIMITED

| | |
|---|---|
| Name of the Director | Mr. R. A. Shah |
| Qualifications | |
| Experience | <ul style="list-style-type: none">- He is a Solicitor and Senior Partner of Messrs Crawford Bayley & Co.- Specialises in a broad spectrum of Corporate Laws in general with special focus on Foreign Investments, Joint Ventures, Technology and Licence Agreement, Intellectual Property Rights, Mergers and Acquisitions, Industrial Licensing, Anti Trust and Competition Law.- Member of the Managing Committee of Bombay Chamber of Commerce.- Member of Indo German Chamber of Commerce.- Member of the Committee for revision of SEBI Takeover Code.- President of Society of Indian Law firms (Western Region) |
| Names of other companies in which he holds directorships of the Board and membership/chairmanship of committees of the Board* | <ol style="list-style-type: none">1. Pfizer Limited (Also Chairman of Audit Committee)2. Colgate Palmolive India Limited (Also Chairman of Audit Committee)3. The Bombay Dyeing & Mfg. Company Limited (Also Chairman of Audit Committee)4. BASF India Limited (Also a Member of Audit Committee)5. Clariant Chemicals (India) Limited (Also Chairman of Audit Committee)6. Abbott India Limited (Also a Member of Audit Committee)7. Procter & Gamble Hygiene and Healthcare Limited (Also a Member of Audit Committee)8. Nicholas Piramal India Limited (Also Chairman of Audit Committee)9. Asian Paints (India) Limited10. ACC Limited11. Deepak Fertilisers & Petrochemicals Corporation Limited12. Lupin Limited13. Wockhardt Limited |
| Name of the Director | Mr. Anup N. Kothari |
| Qualifications | B.Arch, F.I.I.A |
| Experience | <ul style="list-style-type: none">- Graduated in Architecture from Baroda University in 1965.- Proceeded to Sweden where he worked on various types of projects which included Administration and Bank Building, Group Housing Projects, etc.- Returned to India and joined a leading firm of Architects and have since been closely associated with various projects specially Hospitals, Hotels, Housing Projects, Multiplex Cinema Halls, Universities, Embassies, etc.- He is a member of Council of Architecture and Indian Institute of Architects.- He has been practicing Architecture since last 42 years. |
| Names of other companies in which he holds directorships of the Board and membership/chairmanship of committees of the Board* | <ol style="list-style-type: none">1. International Research Park Laboratories Limited2. Samkap Chemicals Limited |
| Name of the Director | Mr. O.P. Vaish |
| Qualifications | B.Com (H), M.A. (Eco.), LL.M. |
| Experience | <ul style="list-style-type: none">- Served for 8 years in the Indian Revenue Service and for another 8 years as Chief (Taxation Division), FICCI.- Founded the Law firm Vaish Associates, proprietary firm and is now designated as Senior Advocate of the Supreme Court of India. (The Law firm was taken over by those who were part of the proprietary firm.)- Past President of PHD Chamber of Commerce.- Member, Board of Governors, International Centre for Alternate Disputes Resolution (ICADR).- Honorary President, International Fiscal Association - India.- Member, Advisory Board of American India Foundation.- Member, Board of Trustees, Centre for Civil Society.- Member, Board of Governors, International Management Institute (IMI)- Member, Advisory Board, Western International University, USA.- Past Director of Rotary International and past Trustee of Rotary Foundation.- Chairman, Rotary Foundation (India)- Chairman, Rotary Blood Bank, New Delhi- Member, FICCI Executive Committee.- Government Nominee to the Institute of Chartered Accountants of India |
| Names of other companies in which he holds directorships of the Board and membership/chairmanship of committees of the Board* | <ol style="list-style-type: none">1. PNB Finance & Industries Limited2. Indo Rama Synthetics (India) Limited3. International Travel House Limited (Also Member of Audit Committee)4. The India Thermit Corporation Limited |

* Excludes directorships in private limited companies, foreign companies, alternate directorships and also memberships of Managing Committees of various chambers/bodies. Represents memberships/chairmanships of Audit Committee and Shareholders/Investors Grievances Committee (excluding private companies).

GODFREY PHILLIPS INDIA LIMITED

(vi) Legal Compliances

Legal compliances applicable to the Company are taken note of and reviewed by the Board. The Company is in the process of implementing a system of tracking legal compliances in a structured manner with the help of a software developed by a professional firm. No material instances of non-compliance were noticed during the financial year.

(vii) Code of Conduct

The Company has a Code of business Conduct applicable to the Board members and senior management team of the Company. Such Code of Conduct is posted on the website of the Company.

All the Board members and senior management team have affirmed compliance with the Code of Conduct as above for the financial year ended 31st March, 2007. A declaration signed by Mr. K.K. Modi, President & Managing Director as the Chief Executive Officer of the Company is annexed to this report.

3. AUDIT COMMITTEE

i) Composition and terms of reference

The Board of Directors of the Company have constituted an Audit Committee comprising of three non-executive independent directors namely Mr.O.P.Vaish, Mr. Anup N. Kothari and Mr. Lalit Bhasin, in pursuance of the provisions of Section 292A of the Companies Act, 1956. The terms of reference of the Audit Committee cover all the areas specified in Section 292A of the Companies Act, 1956 as well as those specified in clause 49 of the Listing Agreement. In pursuance of SEBI's Circular No. SEBI/CFD/DIL/CG/1/2004/12/10 dated 29th October, 2004, the Board of Directors have revised the terms of reference of the committee so as to meet the requirements of the amended clause 49. Audit Committee of the Company consists of members who are financially literate and Mr. O.P. Vaish, Chairman of the Audit Committee possesses accounting and related financial management expertise by virtue of his long experience in the relevant areas. Mr. R. Joshi, Company Secretary acts as the Secretary to the Committee.

The Chairman attended the Annual General Meeting held on September 8, 2006 to answer the shareholders' queries.

The terms of reference of the Audit Committee are in accordance with clause 49 of the listing agreement entered into with the stock exchanges and provisions of Section 292A of the Companies Act, 1956 and inter-alia include overseeing financial reporting process, reviewing the financial statements before submission to the Board, reviewing internal control systems and internal audit functions, etc. The Audit Committee also reviews the information relating to management discussion and analysis of financial condition, significant related party transactions, letters of internal control weaknesses issued by the statutory auditors and internal audit reports.

Audit Committee meetings are also attended by Managing Director being director in charge of finance, Executive Vice-President-Finance (Chief Financial Officer), Company Secretary, the Internal Auditors and the Statutory Auditors as the invitees.

ii) Details of meetings and attendance of each member of the Committee

During the financial year 2006-07, the Audit Committee met five times on May 29, 2006, June 27, 2006, July 29, 2006, October 25, 2006 and January 27, 2007.

| SN. No. | Name | Category of directors | No. of Committee Meetings attended (Total Meetings held-5) |
|---------|---------------------|-----------------------------|---|
| 1. | Mr. O.P. Vaish | Non-Executive & Independent | 5 |
| 2. | Mr. Lalit Bhasin | Non-Executive & Independent | 5 |
| 3. | Mr. Anup N. Kothari | Non-Executive & Independent | 5 |

4. SUBSIDIARY COMPANIES

(i) Since the Company does not have any material non-listed Indian subsidiary company, the requirement for appointment of an independent director on the Board of such subsidiary is not applicable.

(ii) The Audit Committee of the Company has reviewed the financial statements in respect of the investments made by its unlisted subsidiary companies at its meeting held on June 20, 2007.

(iii) Copies of the minutes of the board meetings of all the unlisted subsidiary companies held during the year 2006-07 were placed at the board meeting of the Company held on April 27, 2007. Requirement relating to significant transactions and arrangements entered into between the Company and its unlisted subsidiary companies is not applicable to the Company since none of the subsidiaries is material.

5. DISCLOSURES

(A) Basis of related party transactions

(i) Transactions with related parties in the ordinary course of business: Transactions with all the related parties referred to in note 11 of the Notes to the Accounts to the Financial Statements for the year ended March 31, 2007 are in the ordinary course of business. These transactions were placed at the Audit Committee meeting held on June 20, 2007.

(ii) Transactions with related parties not in the normal course of business: There are no transactions entered into by the Company with the related parties during the financial year ended March 31, 2007 whose terms and conditions are not in the normal course of business.

(iii) Transactions with related parties not on arm's length basis: There are no transactions entered into by the Company with the related parties during the financial year ended March 31, 2007 whose terms and conditions are not on arm's length basis.

(B) Disclosure of Accounting Treatment

The financial statements for the year ended March 31, 2007 comply with the Accounting Standards issued by the Institute of Chartered Accountants of India.

(C) Board Disclosures - Risk management

The Company being an old established organization, has in place built-in internal control systems for assessing and mitigating elements of risks in relation to its operations. The departmental heads are reasonably alive of this aspect in their day to day functioning. However, with a view to apprise the Board of Directors of the risk management procedures and the steps to minimise/eliminate the same in a structured manner in terms of the requirement under Clause 49 of the Listing Agreement, the Company has engaged services of a reputed firm of Chartered Accountants to formulate risk management procedures for the Company. The said firm of Chartered Accountants have almost completed their exercise and have submitted to the Company a draft of its Risk Profile along with the applicable Risk Management Policy Guidelines and the same are being discussed and finalised for implementation across the Company.

(D) Proceeds from public issues, rights issues, preferential issues, etc.

The Company did not raise any funds through public issues, rights issues, preferential issues, etc. during the year.

6. REMUNERATION TO DIRECTORS

(i) Remuneration policy

The Company has not constituted any Remuneration Committee. The remuneration to be paid to the Managing/Executive/Whole-time Directors is decided by the Board and recommended for approval by the shareholders at the Annual General Meeting. The Non-Executive Directors do not draw any remuneration from the Company other than the payment of sitting fee of Rs. 20,000 for each meeting of the Board and the Board Committee attended by them. As per provisions of the Articles of Association of the Company, the overall payment of sitting fees to a director for attending the Board and Committee meetings shall not exceed Rs. 3 lacs in a financial year.

GODFREY PHILLIPS INDIA LIMITED

ii) Details of remuneration to the directors

| (Amount in Rs.) | | | | | |
|-----------------------------------|------------------------------|-------------|------------|--|------------|
| Name of the Director | Salary and Other Allowances* | Perquisites | Commission | Sitting Fees Board/ Committee meetings | Total |
| Mr. R.A. Shah | Nil | Nil | Nil | 120,000 | 120,000 |
| Mr. K.K. Modi ¹ | 6,000,000 | Nil | 4,000,000 | Nil | 10,000,000 |
| Mr. S.V. Shanbhag ² | 456,000 | 88,208 | Nil | Nil | 544,208 |
| Mr. Lalit Bhasin | Nil | Nil | Nil | 180,000 | 180,000 |
| Mr. Anup N. Kothari | Nil | Nil | Nil | 220,000 | 220,000 |
| Mr. Lalit Kumar Modi ³ | 840,000 | 1,440,392 | 840,000 | Nil | 3,120,392 |
| Mr. C.M. Maniar | Nil | Nil | Nil | 180,000 | 180,000 |
| Mr. O.P. Vaish | Nil | Nil | Nil | 220,000 | 220,000 |
| Mr. Samir Kumar Modi ⁴ | 840,000 | 1,620,143 | 840,000 | Nil | 3,300,143 |
| Total | 8,136,000 | 3,148,743 | 5,680,000 | 920,000 | 17,884,743 |

* excludes incremental liability for gratuity and encashable leave salary which are actuarially determined on an overall basis.

iii) Details of service contract, notice period, severance fees, etc. of directors

¹The Company has service contract with Mr. K.K. Modi, President & Managing Director for a period of three years with effect from August 14, 2006. The notice period is six calendar months by either party. No severance fees is payable to him. Besides fixed salary, Mr. Modi is also entitled to payment of performance linked incentive in the form of commission @ 2% of the net profits of the Company computed in the manner laid down under Sections 349, 350 and 351 of the Companies Act, 1956, subject to a ceiling of Rs. 40 lacs per annum.

²The Company has service contract with Mr. S.V. Shanbhag, Whole-time Director for a period of three years with effect from October 1, 2004. His re-appointment as and when made shall be approved by the shareholders at the Annual General Meeting. The notice period is three months by either party. However, the Company has the right to terminate appointment forthwith upon payment of three months salary only in lieu of notice and in that case he is not entitled to any benefits or perquisites.

³The Company has service contract with Mr. Lalit Kumar Modi, Executive Director for the period from October 1, 2004 till the date of the Annual General Meeting to be held for the approval of the audited accounts for the financial year ending March 31, 2007. His re-appointment as and when made shall be approved by the shareholders at the Annual General Meeting. The notice period is six calendar months by either party. No severance fees is payable to him. Besides salary, allowances and perquisites, Mr. Lalit Kumar Modi is also entitled to payment of commission of Rs. 8,40,000/- per annum subject to a ceiling of 1% of the net profits of the Company computed in the manner laid down under Sections 349, 350 and 351 and the aggregate amount of salary, commission together with the monetary value of perquisites computed in the manner provided under the Income-tax Act, 1961 or Rules made thereunder shall not exceed Rs. 35 lacs per annum without the approval of shareholders in the General Meeting.

⁴The Company has service contract with Mr. Samir Kumar Modi, Executive Director for the period from October 1, 2004 till the date of the Annual General Meeting to be held for the approval of the audited accounts for the financial year ending March 31, 2007. His re-appointment as and when made shall be approved by the shareholders at the Annual General Meeting. The notice period is six calendar months by either party. No severance fees is payable to him. Besides salary, allowances and perquisites, Mr. Samir Kumar Modi is entitled to payment of commission of Rs. 8,40,000/- per annum subject to a ceiling of 1% of the net profits of the Company computed in the manner laid down under Sections 349, 350 and 351 and the aggregate amount of salary, commission together with the monetary value of perquisites computed in the manner provided under the Income-tax Act, 1961 or Rules made thereunder shall not exceed Rs. 35 lacs per annum without the approval of shareholders in the General Meeting.

The Company presently does not have any stock option scheme.

(iv) Details of shares/convertible instruments held in the Company by Non-Executive Directors and their relatives.

| SN. No. | Name of the non-executive director/relative | No. of shares held as on March 31, 2007 |
|---------|--|---|
| 1. | Mr. R.A. Shah | 1208 |
| | Mrs. A.R. Shah (Wife) | 4000 |
| 2. | Mr. Lalit Bhasin | 400 |
| 3. | Mr. Anup N Kothari | 1200 |
| | Mrs. Neela Kothari (Daughter-in-Law) | 500 |
| 4. | Mr. C.M. Maniar jointly with Mrs. K.C. Maniar (Wife) | 688 |
| 5. | Mr. O.P. Vaish | 400 |

7. MANAGEMENT

As required under Clause 49 of the Listing Agreement, all the members of senior management team shall disclose their interest in all material, financial and commercial transactions, which may have a potential conflict with the interest of the Company at large.

The Senior Management Team comprising of 12 members who are the top executives of the Company have disclosed to the Board of Directors of the Company about all the material, financial and commercial transactions that have taken place during the financial year ended March 31, 2007 where they had personal interest. These include dealing in/holding of shares by them/their relatives in the Company, transactions entered into by them/their relatives with the Company, transactions entered into by the Company with the companies in which they/their relatives are Directors or Members and transactions entered into by them/their relatives with the subsidiary companies of the Company and these were placed before the Board of Directors of the Company at its meeting held on June 20, 2007.

8. SHARE TRANSFER AND SHAREHOLDERS/INVESTORS GRIEVANCE COMMITTEE

The Company has a Share Transfer and Shareholders/Investors Grievance Committee which comprises of Mr. C.M. Maniar, a Non-Executive Director as its Chairman, Mr. K.K. Modi, President & Managing Director, Mr. S.V. Shanbhag, Whole-time Director and Mr. Lalit Bhasin, Non-Executive Director as its members. This Committee besides sanctioning share transfers/transmissions and other related matters, is also required to look into the redressal of shareholders' and other investors' complaints regarding transfer of shares, non-receipt of balance sheets and dividends, etc. Mr. R. Joshi, Company Secretary has been appointed as the Compliance Officer.

During the financial year 2006-07, 105 complaints were received from the shareholders/investors and same were solved to their satisfaction. There were neither any complaints nor any cases of share transfers pending as on March 31, 2007.

GODFREY PHILLIPS INDIA LIMITED

9. GENERAL BODY MEETINGS

Details of the last three Annual General Meetings (AGM) are as follows:

| Financial year | Date of AGM | Time | Location |
|----------------|--------------------|-----------|--|
| 2003-04 | September 28, 2004 | 3:30 P.M. | Y.B. Chavan Auditorium, General Jagannath Bhosle Marg, Mumbai - 400021 |
| 2004-05 | September 15, 2005 | 3:30 P.M. | Rama Watumull Auditorium, Kishinchand Chellaram College, Dinshaw Wacha Road, Churchgate, Mumbai - 400020 |
| 2005-06 | September 8, 2006 | 3:30 P.M. | Y.B. Chavan Auditorium, General Jagannath Bhosle Marg, Mumbai - 400021 |

There was no other General Body Meeting during the last three years.

No special resolution was put through postal ballot during the year ended March 31, 2007 and no special resolution is proposed to be conducted through postal ballot at the ensuing Annual General Meeting.

During the last three years following special resolutions were passed:

| SN. NO. | ANNUAL GENERAL MEETING AT WHICH SPECIAL RESOLUTION WAS PASSED | PARTICULARS OF THE RESOLUTION |
|---------|---|---|
| 1. | Sixty-Seventh AGM | <ul style="list-style-type: none"> Re-appointment of Mr. S.V. Shanbhag as Whole-time Director and approval of his remuneration |
| 2. | Sixty-Eighth AGM | <ul style="list-style-type: none"> Increase in the retainership fee of M/s. Bhasin & Co., Advocates by the Company & its wholly owned subsidiary International Tobacco Company Ltd. from Rs. 14,000/- per month to Rs. 19,000/- per month & from Rs. 5,000/- per month to Rs.18,000/- per month respectively |
| 3. | Sixty- Ninth AGM | <ul style="list-style-type: none"> Increase in the retainership fee of M/s. Bhasin & Co., Advocates by the Company's wholly owned subsidiary International Tobacco Company Ltd. from Rs. 18,000/- per month to Rs. 28,000/- per month |

10. DISCLOSURES

- Related parties and transactions with them as required under Accounting Standard 18 (AS-18) are stated in note 11 of the Notes to the Accounts attached with the financial statements for the year ended March 31, 2007.
The said transactions have no potential conflict with the interest of the Company at large.
- There is no non-compliance of any legal provision of applicable laws and no penalties or strictures have been imposed by the stock exchanges, SEBI or any other statutory authority on any matter related to capital markets during the last three years.
- The Company does not have any Whistle Blower Policy.
- The Company has complied with all applicable mandatory requirements of clause 49 of the Listing Agreement during the year. The Company has not adopted any non-mandatory requirements.

11. MEANS OF COMMUNICATION

The quarterly, half yearly and annual results are published by the Company in all editions of Financial Express (English) and in Loksatta (Marathi). The quarterly and yearly results are also available on the Company's website : www.godfreyphillips.com as well as on Bombay Stock Exchange and National Stock Exchange websites: www.bseindia.com & www.nseindia.com. The half-yearly reports are not sent to household of the shareholders. During the year, there were no official news releases and no formal presentations were made to the institutional investors/analysts.

The Management Discussion and Analysis Report forms a part of the Directors' Report.

12. GENERAL SHAREHOLDER INFORMATION

- Annual General Meeting
Date and Time : August 30, 2007 at 3:30 p.m.
Venue : Kishinchand Chellaram College, Dinshaw Wacha Road, Churchgate, Mumbai - 400020
- Financial Calendar for 2007-08
First Quarter Results : July, 2007
Second Quarter Results : October, 2007
Third Quarter Results : January, 2008
Annual Results : June, 2008
- Date of Book Closure : August 27, 2007 to August 30, 2007 (both days inclusive)
- Dividend Payment Date : Dividend payments shall be made on or after September 6, 2007 to those shareholders whose names shall appear on the Members' Register as on August 30, 2007.

(v) Listing on the Stock Exchanges :

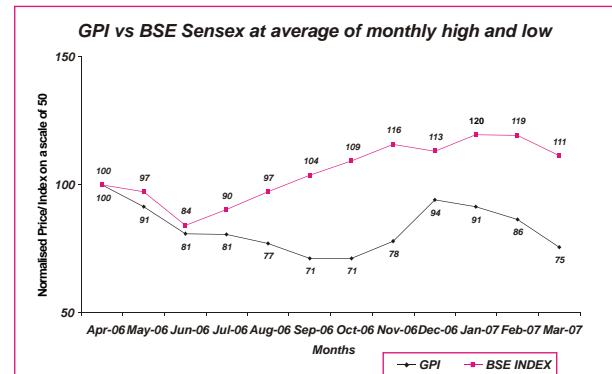
The Company's shares are listed on National Stock Exchange (Stock Code GODFRYPHLP), Bombay Stock Exchange (Stock Code 500163) and Calcutta Stock Exchange (Stock Code 10017335 for shares in demat form and 17335 for physical form). The Company's application for delisting of its equity shares from Calcutta Stock Exchange is still pending decision by a committee set up for the purpose by them.

(vi) Market Price Data of equity shares of the Company

High, Low during each month in the financial year 2006-07, on The Bombay Stock Exchange

| Month | High (Rs.) | Low (Rs.) |
|-----------------|------------|-----------|
| April, 2006 | 1650.00 | 1410.00 |
| May, 2006 | 1591.00 | 1200.00 |
| June, 2006 | 1410.00 | 1060.00 |
| July, 2006 | 1323.90 | 1141.30 |
| August, 2006 | 1279.00 | 1075.10 |
| September, 2006 | 1149.95 | 1025.00 |
| October, 2006 | 1150.00 | 1025.00 |
| November, 2006 | 1380.05 | 1000.00 |
| December, 2006 | 1597.55 | 1276.05 |
| January, 2007 | 1507.10 | 1292.10 |
| February, 2007 | 1450.00 | 1190.00 |
| March, 2007 | 1240.00 | 1070.00 |

(vii) Performance in comparison to BSE Sensex



GODFREY PHILLIPS INDIA LIMITED

(viii) Registrars and Share Transfer Agent

Sharepro Services (India) Pvt. Ltd.
Satam Estate
3rd Floor, Above Bank of Baroda
Cardinal Gracious Road, Chakala
Andheri (East), Mumbai - 400099
Telephone No : 022-28215168, 28329828, 28215991
Fax No : 022-28375646
E-mail : sharepro@vsnl.com

(ix) Share Transfer System

The Company's share transfer and related operations are handled by Sharepro Services (India) Pvt. Ltd., Registrars and Share Transfer Agent (RTA) who are registered with the SEBI as a Category 1 Registrar.

The shares for transfers received in physical mode by the Company/RTA, are transferred expeditiously provided the documents are complete and the shares are not under dispute. The share certificates duly endorsed are returned immediately to those who do not opt for simultaneous transfer cum dematerialisation. Confirmation in respect of the request for dematerialisation of shares is sent to the respective depositories NSDL/CDSL within 21 days.

(x) Distribution of shareholding as on March 31, 2007

| Number of equity share holdings | Number of shareholders | Percentage of shareholders | Number of shares | Percentage of shares |
|---------------------------------|------------------------|----------------------------|------------------|----------------------|
| 1-50 | 5974 | 46.89 | 110050 | 1.06 |
| 51-100 | 2538 | 19.92 | 231045 | 2.22 |
| 101-500 | 3764 | 29.55 | 812261 | 7.81 |
| 501-1000 | 267 | 2.10 | 191997 | 1.84 |
| 1001-5000 | 142 | 1.11 | 291944 | 2.81 |
| 5001-10000 | 13 | 0.10 | 90161 | 0.87 |
| 10001 & above | 42 | 0.33 | 8671326 | 83.39 |
| Total | 12740 | 100.00 | 10398784 | 100.00 |

(xi) Categories of Shareholding as on March 31, 2007

| Category of Shareholder | Number of Shares | Percentage of Shares |
|---|------------------|----------------------|
| A. Promoter and Promoter Group | 7,497,237 | 72.10 |
| B. Public Shareholding | | |
| Foreign Institutional Investors | 814,547 | 7.83 |
| Mutual funds/UTI | 91,643 | 0.88 |
| Financial Institutions/Banks | 10,083 | 0.10 |
| Central Government/ State Government(s) | 6000 | 0.06 |
| Bodies Corporate | 108,510 | 1.04 |
| Individuals | 1,794,827 | 17.26 |
| Directors & Relatives | 7441 | 0.07 |
| NRIs and OCBs | 68,496 | 0.66 |
| Total Public Shareholding | 2,901,547 | 27.90 |
| Total Shareholding (A+B) | 1,03,98,784 | 100.00 |

(xii) Dematerialisation of shares

The shares of the Company are compulsorily traded in the dematerialised form and are available for trading under both the Depository Systems-NSDL (National Securities Depository Ltd.) and CDSL (Central Depository Services (India) Ltd.). As on March 31, 2007, a total of 45,03,229 equity shares of the Company, which forms 43.31% of the share capital, stand dematerialised.

Under the Depository System, the International Securities Identification Number (ISIN) allotted to the Company's equity shares is INE260B01010.

(xiii) Outstanding GDRs/ADRs/Warrants or any Convertible Instruments

The Company has no outstanding GDRs/ADRs/Warrants or any convertible instruments.

(xiv) Plant Locations

The Company's plant is situated at Andheri (Mumbai) and the other one owned by the Company's wholly owned subsidiary, International Tobacco Company Limited, is located at Guldhar (Ghaziabad).

| | |
|---------------|--|
| Andheri Plant | : V.K.K. Menon Road (Sahar Road), Chakala, Andheri (East), Mumbai - 400099 |
| Guldhar Plant | : International Tobacco Company Ltd. Delhi - Meerut Road, Guldhar, Ghaziabad - 201001. |

Address for Correspondence

Shareholders should address all their correspondence concerning shares to the Company's Registrars and Share Transfer Agent, Sharepro Services (India) Pvt. Ltd. at the address mentioned at Sr. No. 12 (viii) above or at:
Sharepro Services (India) Pvt. Ltd.
912, Raheja Centre,
Free Press Journal Road,
Nariman Point, Mumbai - 400021.
Telephone No : 022-22825163, 22881569
Fax No : 022-22825484
E-mail : sharepro@vsnl.com

13. CEO/CFO CERTIFICATION

A certificate signed by Mr. K.K. Modi, President & Managing Director as CEO and by Mr. R.N. Agarwal, Executive Vice President - Finance as the CFO is attached with this report.

14. COMPLIANCE REPORT ON CORPORATE GOVERNANCE

The Company is regularly filing the Quarterly Compliance Report on Corporate Governance with the Stock Exchanges as per the format specified in Annexure 1B to the Clause 49 of the Listing Agreement.

For and on behalf of the Board

R.A. SHAH
Chairman

Place : Mumbai
Date : 31st July, 2007

GODFREY PHILLIPS INDIA LIMITED

CERTIFICATE

To the Members of Godfrey Phillips India Limited

We have examined the compliance of conditions of Corporate Governance by Godfrey Phillips India Limited for the year ended March 31, 2007, as stipulated in clause 49 of the Listing Agreement of the said Company with stock exchanges.

The compliance of conditions of Corporate Governance is the responsibility of the management. Our examination was limited to procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of the Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.

In our opinion and to the best of our information and according to the explanations given to us, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in the above mentioned Listing Agreement.

We state that in respect of investor grievances received during the year ended March 31, 2007 no investor grievances are pending for a period exceeding one month against the Company as per the records maintained by the Company.

We further state that such compliance is neither an assurance as to the future viability of the Company nor the efficiency or effectiveness with which the management has conducted the affairs of the Company.

For A.F. Ferguson & Co.
Chartered Accountants

J.M. SETH
Partner
(Membership No. 17055)

Place: New Delhi
Date : 31st July, 2007

CHIEF EXECUTIVE OFFICER (CEO) AND
CHIEF FINANCIAL OFFICER CERTIFICATION

The Board of Directors
Godfrey Phillips India Limited
Bhilwara Bhawan
40-41, Community Centre
Friends Colony
New Delhi - 110025

We K.K. Modi, Managing Director being the Chief Executive Officer and R.N. Agarwal Executive Vice-President - Finance as the Chief Financial Officer of Godfrey Phillips India Limited to the best of our knowledge and belief certify in relation to the financial statements for the year ended March 31, 2007 that:

- We have reviewed financial statements and the cash flow statement for the year and that to the best of our knowledge and belief
 - these statements do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading;
 - these statements together present a true and fair view of the Company's affairs and are in compliance with existing accounting standards, applicable laws and regulations.
- There are, to the best of our knowledge and belief, no transactions

entered into by the Company during the year which are fraudulent, illegal or violative of the Company's code of conduct.

- We accept responsibility for establishing and maintaining internal controls for financial reporting and that we have evaluated the effectiveness of internal control systems of the Company pertaining to financial reporting. Also, during the year we have not come across any instances of deficiencies in the design or operation of such internal controls requiring disclosure to the auditors and the Audit Committee.
- There were no significant changes in internal control over financial reporting and in accounting policies during the year requiring disclosure to the auditors and the Audit Committee. Also, we have not come across any instances of significant fraud during the year requiring disclosure to the auditors and the Audit Committee.

K.K. MODI
Managing Director
(Chief Executive Officer)

R.N. AGARWAL
Executive Vice-President - Finance
(Chief Financial Officer)

Place: New Delhi
Date: June 20, 2007

CHIEF EXECUTIVE OFFICER (CEO) CERTIFICATION ON
COMPANY'S CODE OF CONDUCT

The Board of Directors
Godfrey Phillips India Limited
Bhilwara Bhawan
40-41, Community Centre
Friends Colony
New Delhi - 110 025

I, K.K. Modi, Managing Director being the Chief Executive Officer (CEO) of Godfrey Phillips India Limited do hereby declare that all the members of the Board of Directors and the members of the Senior Management Team of the Company have affirmed compliance with the Code of business conduct of the Company during the financial year ended March 31, 2007.

K.K. MODI
Managing Director
(Chief Executive Officer)

Place: New Delhi
Date: June 20, 2007

GODFREY PHILLIPS INDIA LIMITED

AUDITORS' REPORT

To the Members of Godfrey Phillips India Limited

- We have audited the attached balance sheet of Godfrey Phillips India Limited as at March 31, 2007 and also the profit and loss account and the cash flow statement for the year ended on that date, annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
- We conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
- As required by the Companies (Auditor's Report) Order, 2003 issued by the Central Government of India in terms of section 227(4A) of the Companies Act, 1956, we give in the Annexure, a statement on the matters specified in paragraphs 4 and 5 of the said Order.
- Further to our comments in the Annexure referred to in paragraph 3 above, we report that:
 - we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
 - in our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books;
 - the balance sheet, profit and loss account and cash flow statement dealt with by this report are in agreement with the books of account;
 - in our opinion, the balance sheet, profit and loss account and cash flow statement dealt with by this report comply with the requirements of the accounting standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956;
 - on the basis of the written representations received from the directors as on March 31, 2007 and taken on record by the Board of Directors, we report that none of the directors is disqualified as on March 31, 2007 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956;
 - in our opinion and to the best of our information and according to the explanations given to us, the accounts give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

- in the case of the balance sheet, of the state of affairs of the Company as at March 31, 2007;
- in the case of the profit and loss account, of the profit for the year ended on that date; and
- in the case of the cash flow statement, of the cash flows for the year ended on that date.

For A.F. FERGUSON & CO.
Chartered Accountants

J.M. SETH
Partner
(Membership No. 17055)

New Delhi : 20th June, 2007

GODFREY PHILLIPS INDIA LIMITED

Annexure referred to in paragraph 3 of Auditors' Report to the Members of GODFREY PHILLIPS INDIA LIMITED on the accounts for the year ended March 31, 2007

- (i) (a) The Company is maintaining proper records to show full particulars, including quantitative details and situation of fixed assets.
- (b) As explained to us, the Company has a system of physical verification of fixed assets which is designed to cover all fixed assets once in a period of three years and in accordance therewith, the fixed assets have been physically verified during the current year. The discrepancies noticed on such verification were not material and have been properly dealt with in the books of account. In our opinion, the frequency of physical verification is reasonable having regard to the size of the Company and the nature of its fixed assets.
- (c) During the year, in our opinion and according to the information and explanations given to us, a substantial part of fixed assets has not been disposed off by the Company.
- (ii) (a) The inventories have been physically verified by the management during the year. In our opinion, the frequency of verification is reasonable.
- (b) In our opinion and according to the information and explanations given to us, the procedures of physical verification of inventories followed by the management were found reasonable and adequate in relation to the size of the Company and the nature of its business.
- (c) On the basis of our examination of the record of inventories, in our opinion, the Company has maintained proper records of inventories and the discrepancies noticed on physical verification between the physical stocks and the book records were not material in relation to the operations of the Company and have been properly dealt with in the books of account.
- (iii) (a) According to the information and explanations given to us, the Company has, during the year, not granted any loan, secured or unsecured to companies, firms and other parties covered in the register maintained under Section 301 of the Companies Act, 1956, other than unsecured loan of Rs.150 lacs granted to a company covered in the register maintained under Section 301 of the Companies Act, 1956. The maximum amount due during the year was Rs.150 lacs and the year end balance of the loan granted was Rs.150 lacs.
- (b) In our opinion and according to the information and explanations given to us, the rate of interest and other terms and conditions of the loan granted by the Company, as referred to in paragraph 4(iii)(a) of the Companies (Auditor's Report) Order, 2003 (hereinafter referred to as the Order) above, are, prima-facie, not prejudicial to the interest of the Company.
- (c) According to the information and explanations given to us, the party, to whom the loan has been granted by the Company, as referred to in paragraph 4 (iii) (a) above, has been regular in payment of interest. The principal amount of loan granted, as referred to in paragraph 4 (iii) (a) above, is not due for repayment during the year.
- (d) According to the information and explanations given to us, there are no overdue amounts in respect of the loan granted as referred to in paragraph 4 (iii) (a) above and interest thereon.
- (e) According to the information and explanations given to us, the Company has, during the year, not taken any loans, secured or unsecured, from companies, firms and other parties covered in the register maintained under Section 301 of the Companies Act, 1956. Accordingly, paragraph 4 (iii) (f) and (g) of the Order are not applicable.
- (iv) According to the information and explanations given to us, there is adequate internal control system commensurate with the size of the Company and the nature of its business for the purchase of inventories and fixed assets and for the sale of goods. There are no sale of services during the year. Further, on the basis of our examination and according to the information and explanations given to us, we have neither come across nor have been informed of any instance of major weakness in the aforesaid internal control system.
- (v) (a) According to the information and explanations given to us, we are of the opinion that during the year, the particulars of contracts or arrangements referred to in section 301 of the Companies Act, 1956 have been entered in the register required to be maintained under the section.
- (b) In our opinion and according to the information and explanations given to us, the transactions made in pursuance of contracts or arrangements entered in the register maintained under section 301 of the Companies Act, 1956 and exceeding the value of Rs. 5 lacs in respect of any party during the year have been made at prices which are reasonable having regard to prevailing market prices at the relevant time except for items stated to be of specialised nature for which there are no alternate sources of supply available to enable a comparison of prices.
- (vi) In our opinion and according to the information and explanations given to us, the Company has complied with the provisions of sections 58A, 58AA and other relevant provisions of the Companies Act, 1956 and the rules framed thereunder with regard to the deposits accepted from the public. As per information and explanations given to us, no order under the aforesaid sections has been passed by the Company Law Board or Reserve Bank of India or any court or any other tribunal, on the Company.
- (vii) In our opinion, the Company has an internal audit system commensurate with its size and nature of its business.
- (viii) We are informed that the maintenance of cost records has not been prescribed by the Central Government under section 209 (1) (d) of the Companies Act, 1956 in respect of the Company's products.
- (ix) (a) According to the information and explanations given to us and the records of the Company examined by us, the Company has been regular in depositing undisputed statutory dues including provident fund, investor education and protection fund, income-tax, wealth tax, customs duty, excise duty, cess, and other material statutory dues applicable to it except in few instances in respect of dues of works contract tax, entry tax, employees' state insurance, income-tax deducted at source, service tax and sales tax. We are informed that there are no undisputed statutory dues as at the year end outstanding for a period of more than six months from the date they became payable.
- (b) According to the information and explanations given to us and the records of the Company examined by us, there are no dues of wealth tax, service tax, customs duty and cess matters which have not been deposited on account of any dispute.

The details of dues of sales tax, excise duty and income-tax as at March 31, 2007, which have not been deposited by the Company on account of dispute are as follows:-

| Name of the statute | Nature of the dues | Amount of dues* (Rs. lacs) | Amount deposited (Rs. lacs) | Period to which the amount relates | Forum where dispute is pending |
|---------------------|--------------------|----------------------------|-----------------------------|--|---|
| Sales Tax Laws | Sales tax | 0.83 | 0.25 | 1995-96, 2001-02 | Sales Tax Tribunal |
| | | 42.23 | 15.16 | 1997-98 to 1999-00, 2001-02 to 2006-07 | Upto Commissioners' Level |
| Central Excise Law | Excise duty | 16.96 | - | 2000-01 to 2002-03, 2004-05 to 2006-07 | Upto Commissioners' Level |
| | | 7.18 | - | 2004-05 to 2005-06 | Customs Excise Service Tax Appellate Tribunal |
| Income-Tax Law | Income-tax | 244.00 | 244.00 | 1980 to 1983, 1995-96 to 1997-98 | High Court |
| | | 167.55 | 167.55 | 1999-00 to 2002-03 | Income Tax Appellate Tribunal |
| | | 182.19 | - | 2001-02, 2003-04 | Upto Commissioners' Level |

* amount as per demand orders, including interest and penalty, where quantified in the Order.

Further, as per information available with the Company, the concerned authority is in appeal against favourable orders received by the Company in respect of the following matters:-

| Name of the statute | Nature | Amount (Rs. lacs) | Period to which the amount relates | Forum where department has preferred appeal |
|-------------------------------------|------------|-------------------|--|---|
| Income Tax Law | Income tax | 299.46 | 1969, 1974 to 1977, 1991-92 to 1994-95 | High Court |
| | | 189.01 | 1998-99 to 2001-02 | Income Tax Appellate Tribunal |
| U.P. Krishi Utpadan Mandi Adhiniyam | Mandi cess | 108.20 | 1997-98 to 1998-99 | Supreme Court |

- (x) The Company does not have accumulated losses as at the end of financial year March 31, 2007. Further, the Company has not incurred any cash losses during the financial year ended March 31, 2007 and in the immediately preceding financial year ended March 31, 2006.
- (xi) According to the records of the Company examined by us and on the basis of information and explanations given to us, the Company has not defaulted in repayment of dues to banks during the year. The Company has not taken any loans from financial institutions and has not issued debentures during the year.
- (xii) In our opinion and according to the explanations given to us, the Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities during the year.
- (xiii) Since the Company is not a chit fund or nidhi/mutual benefit fund/society, paragraph 4 (xiii) of the Order is not applicable.
- (xiv) As the Company is not dealing or trading in shares, securities, debentures and other investments, paragraph 4 (xiv) of the Order is not applicable.
- (xv) According to the information and explanations given to us, the Company has not given any guarantees for loans taken by others from banks or financial institutions during the year.
- (xvi) According to the information and explanations given to us, the Company has not raised any term loans during the year.
- (xvii) In our opinion and according to the explanations given to us, and on an overall examination of the balance sheet of the Company, we report that during the year short term funds have not been used to finance long term investments.
- (xviii) The Company has not made any preferential allotment of shares during the year.
- (xix) The Company has not issued any debentures during the year.
- (xx) The Company has not raised money by way of public issue, during the year.
- (xxi) Based upon the audit procedures performed and information and explanations given by the management, we report that no fraud on or by the Company has been noticed or reported during the year ended March 31, 2007.

For A.F. FERGUSON & CO.
Chartered Accountants

J.M. SETH
Partner
(Membership No. 17055)

New Delhi : 20th June, 2007

GODFREY PHILLIPS INDIA LIMITED

Balance sheet as at March 31, 2007

| | | | | Rupees in lacs | |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| | Schedule Number | As at 31.3.2007 | | As at 31.3.2006 | |
| SOURCES OF FUNDS | | | | | |
| Shareholders' funds | | | | | |
| Share capital | 1 | 1039.88 | | 1039.88 | |
| Reserves and surplus | 2 | <u>40775.14</u> | 41815.02 | <u>35006.24</u> | 36046.12 |
| Loan funds | | | | | |
| Secured | 3 | | 6073.35 | | 7439.19 |
| Deferred tax liabilities (net) | 12 | | 355.44 | | 407.96 |
| TOTAL | | | <u>48243.81</u> | | <u>43893.27</u> |
| APPLICATION OF FUNDS | | | | | |
| Fixed assets | 4 | | | | |
| Gross block | | 23109.02 | | 22340.38 | |
| Less: Depreciation/ write down | | <u>11248.76</u> | | <u>9623.95</u> | |
| Net block | | 11860.26 | | 12716.43 | |
| Capital work-in-progress and advances on capital account | | <u>794.60</u> | 12654.86 | <u>267.36</u> | 12983.79 |
| Investments | 5 | | 24626.57 | | 21100.51 |
| Current assets, loans and advances | | | | | |
| Income accrued on investments | | 12.72 | | 15.17 | |
| Inventories | 6 | 15129.58 | | 14971.64 | |
| Sundry debtors | 7 | 1569.61 | | 1153.09 | |
| Cash and bank balances | 8 | 1427.60 | | 668.41 | |
| Loans and advances | 9 | <u>7342.47</u> | | <u>7673.50</u> | |
| | | 25481.98 | | 24481.81 | |
| Less: | | | | | |
| Current liabilities and provisions | | | | | |
| Current liabilities | 10 | 9129.14 | | 9967.59 | |
| Provisions | 11 | <u>5390.46</u> | | <u>4705.25</u> | |
| | | <u>14519.60</u> | | <u>14672.84</u> | |
| Net current assets | | | 10962.38 | | 9808.97 |
| TOTAL | | | <u>48243.81</u> | | <u>43893.27</u> |
| Notes to the accounts | 16 | | | | |

For and on behalf of the Board of Directors

Per our report attached
For A. F. FERGUSON & CO.,
Chartered Accountants

L.K. MODI
Executive Director

S. SERU
Chief Executive (Domestic)

R.A. SHAH
Chairman

S.V. SHANBHAG
Whole-time Director

C.M. MANIAR
LALIT BHASIN
O.P. VAISH
ANUP N.KOTHARI

Directors

J.M. SETH
Partner
(Membership No.17055)

R.N. AGARWAL
Executive Vice President (Finance)

R. JOSHI
Company Secretary

New Delhi: 20th June, 2007

GODFREY PHILLIPS INDIA LIMITED

Profit and loss account for the year ended March 31, 2007

| | | Rupees in lacs | |
|---|-----------------|------------------------------|------------------------------|
| | Schedule Number | For the year ended 31.3.2007 | For the year ended 31.3.2006 |
| INCOME | | | |
| Gross sales | | 159676.79 | 143187.18 |
| Less: Excise duty | | 83528.33 | 74770.57 |
| Net sales | | 76148.46 | 68416.61 |
| Other income | 13 | 3359.85 | 1660.84 |
| | | <u>79508.31</u> | <u>70077.45</u> |
| EXPENSES | | | |
| Raw and packing materials, manufactured and other goods | 14 | 30803.51 | 24940.34 |
| Manufacturing and other expenses | 15 | 34621.44 | 32789.54 |
| Depreciation | 4 | 1906.58 | 1837.20 |
| Increase/(decrease) in excise duty on finished goods | | (1105.51) | 1405.31 |
| | | <u>66226.02</u> | <u>60972.39</u> |
| Profit before taxation and exceptional items | | 13282.29 | 9105.06 |
| Exceptional items - Refer note 14 | | 240.59 | 864.30 |
| Profit before taxation | | 13522.88 | 9969.36 |
| Provision for taxation - current | | 4071.00 | 1307.35 |
| - deferred tax | | (52.52) | 1984.30 |
| - fringe benefit tax | | 693.98 | 664.75 |
| Profit after taxation | | 8810.42 | 6012.96 |
| Balance brought forward from previous year | | 23009.36 | 21064.27 |
| Available for appropriation | | <u>31819.78</u> | <u>27077.23</u> |
| APPROPRIATIONS | | | |
| Proposed dividend | | 2599.70 | 2339.72 |
| Corporate dividend tax | | 441.82 | 328.15 |
| Transferred to general reserve | | 1500.00 | 1400.00 |
| Surplus carried to balance sheet | | <u>27278.26</u> | <u>23009.36</u> |
| | | <u>31819.78</u> | <u>27077.23</u> |
| Basic and diluted earnings per share (Face value of share - Rs.10 each) | | Rs. 84.73 | Rs.57.82 |
| Notes to the accounts | 16 | | |

For and on behalf of the Board of Directors

| | | | | |
|--|--|---------------------------------------|---|-----------|
| Per our report attached to the balance sheet For A. F. FERGUSON & CO., Chartered Accountants | L.K. MODI Executive Director | S. SERU Chief Executive (Domestic) | R.A. SHAH Chairman | Directors |
| | S.V. SHANBHAG Whole-time Director | | C.M. MANIAR LALIT BHASIN O.P. VAISH ANUP N.KOTHARI | |
| J.M. SETH Partner (Membership No.17055) | R.N. AGARWAL Executive Vice President (Finance) | R. JOSHI Company Secretary | | |
| New Delhi: 20th June, 2007 | | | | |

GODFREY PHILLIPS INDIA LIMITED

Cash flow statement for the year ended March 31, 2007

| | | Rupees in lacs | |
|---|-------------|------------------------------|------------------------------|
| | | For the year ended 31.3.2007 | For the year ended 31.3.2006 |
| A. CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Net profit before tax | | 13522.88 | 9969.36 |
| Adjustments for: | | | |
| Depreciation | | 1906.58 | 1837.20 |
| Interest income from: | | | |
| Subsidiary companies | | (245.05) | (200.98) |
| Debts, deposits, loans, etc. | | (131.14) | (234.17) |
| Dividends from other long term investments | | (31.01) | (30.25) |
| Interest income from other long term investments | | (25.91) | (25.91) |
| Profit on redemption/sale of other long term investments | | (1885.91) | (191.81) |
| Profit on sale of other current investments | | (344.40) | (273.10) |
| Exchange gain | | (0.29) | (0.46) |
| Exchange (gain)/loss on foreign currency borrowings | | (11.11) | 23.70 |
| Provision for wealth-tax | | 17.00 | 15.00 |
| Interest expense - fixed loans | | 272.77 | 219.41 |
| - others | | 19.51 | 58.89 |
| Fixed assets written off/written down | | 64.37 | 99.13 |
| Loss on sale of fixed assets | | 119.63 | 39.11 |
| | | <u>(274.96)</u> | <u>1335.76</u> |
| Operating profit before working capital changes | | <u>13247.92</u> | <u>11305.12</u> |
| Adjustments for: | | | |
| Trade and other receivables | | 402.83 | (1081.75) |
| Inventories | | (157.94) | (2189.07) |
| Trade and other payables | | (596.00) | (1776.76) |
| | | <u>(351.11)</u> | <u>(5047.58)</u> |
| Cash generated from operations | | <u>12896.81</u> | <u>6257.54</u> |
| Interest received | | 216.71 | 287.99 |
| Direct taxes paid | | (4709.18) | (2245.01) |
| | | <u>(4492.47)</u> | <u>(1957.02)</u> |
| Net cash from operating activities | | <u>8404.34</u> | <u>4300.52</u> |
| B. CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchase of fixed assets | | (1910.36) | (2060.44) |
| Proceeds from sale of fixed assets | | 119.02 | 107.83 |
| Purchase of investments | (108818.01) | | (76188.43) |
| Proceeds from sale of investments | 107522.26 | (1295.75) | 75468.61 |
| Dividends from long term other investments | | 33.46 | 27.86 |
| Interest received from other long term investments | | 25.91 | 25.91 |
| Loans and deposits made | | (681.00) | (278.50) |
| Loans and deposits received back | | 200.00 | 400.00 |
| Interest received | | 151.99 | 134.94 |
| Net cash used in investing activities | | <u>(3356.73)</u> | <u>(2362.22)</u> |
| C. CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Repayment of fixed deposits | | - | (181.19) |
| Repayment of long term borrowings | | (1167.20) | (107.72) |
| (Repayment of)/proceeds from working capital borrowings | | (157.84) | 1431.97 |
| Interest paid | | (301.86) | (333.94) |
| Dividend paid | | (2333.66) | (2278.92) |
| Corporate dividend tax paid | | (328.15) | (320.85) |
| Net cash used in financing activities | | <u>(4288.71)</u> | <u>(1790.65)</u> |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | 758.90 | 147.65 |
| Opening cash and cash equivalents | | | |
| -Cash and bank balances | | 668.41 | 520.30 |
| Closing cash and cash equivalents | | | |
| -Cash and bank balances | | 1427.60 | 668.41 |
| -Effect of exchange rate changes on exchange earner foreign currency bank balance | | (0.29) | (0.46) |
| | | <u>1427.31</u> | <u>667.95</u> |

For and on behalf of the Board of Directors

| | | | | |
|--|--|---------------------------------------|---|-----------|
| Per our report attached to the balance sheet For A. F. FERGUSON & CO., Chartered Accountants | L.K. MODI Executive Director | S. SERU Chief Executive (Domestic) | R.A. SHAH Chairman | Directors |
| | S.V. SHANBHAG Whole-time Director | | C.M. MANIAR LALIT BHASIN O.P. VAISH ANUP N.KOTHARI | |
| J.M. SETH Partner (Membership No.17055) | R.N. AGARWAL Executive Vice President (Finance) | R. JOSHI Company Secretary | | |
| New Delhi: 20th June, 2007 | | | | |

GODFREY PHILLIPS INDIA LIMITED

Schedules 1 to 16 annexed to and forming part of the accounts for the year ended March 31, 2007

| | Rupees in lacs | |
|---|--------------------|--------------------|
| | As at 31.3.2007 | As at 31.3.2006 |
| SCHEDULE 1 - Share capital | | |
| AUTHORISED | | |
| 60,000 Preference shares of Rs. 100 each | 60.00 | 60.00 |
| 2,44,00,000 Equity shares of Rs. 10 each | 2440.00 | 2440.00 |
| | <u>2500.00</u> | <u>2500.00</u> |
| ISSUED, SUBSCRIBED AND PAID UP | | |
| 1,03,98,784 Equity shares of Rs.10 each fully paid up | <u>1039.88</u> | <u>1039.88</u> |

Of the above equity shares

- (i) 86,82,578 shares were allotted as fully paid up as bonus shares by capitalisation of general reserves Rs. 311.57 lacs, share premium account Rs. 36.75 lacs and profits Rs. 519.94 lacs.
(ii) 83,490 shares were allotted as fully paid up to the shareholders of D. Macropolo & Company Limited on amalgamation.

SCHEDULE 2 - Reserves and surplus

| | | | |
|--|-----------------|-----------------|-----------------|
| REVALUATION RESERVE | | | |
| Per last balance sheet | 236.16 | | 236.16 |
| CAPITAL REDEMPTION RESERVE | | | |
| Per last balance sheet | 30.00 | | 30.00 |
| GENERAL RESERVE | | | |
| Per last balance sheet | 11730.72 | | 10330.72 |
| Add: Amount transferred from profit and loss account | <u>1500.00</u> | <u>13230.72</u> | <u>1400.00</u> |
| | | | 11730.72 |
| PROFIT AND LOSS ACCOUNT | | | |
| | <u>27278.26</u> | | <u>23009.36</u> |
| | <u>40775.14</u> | | <u>35006.24</u> |

GODFREY PHILLIPS INDIA LIMITED

| | Rupees in lacs | |
|---|--------------------|--------------------|
| | As at 31.3.2007 | As at 31.3.2006 |
| SCHEDULE 3- Loan funds | | |
| SECURED | | |
| From banks: | | |
| - Term loan secured by way of an exclusive charge over specific plant and machinery (payable within 12 months Rs. 1090.00 lacs; previous year Rs. 1119.50 lacs) | 3270.00 | 4478.00 |
| - Cash credit and working capital demand loan secured against hypothecation of stocks and book debts and second charge on certain immovable properties of the Company | 2803.35 | 2961.19 |
| | <u>6073.35</u> | <u>7439.19</u> |

SCHEDULE 4 - Fixed assets

| Rupees in lacs | | | | | | | | | | | |
|---|-----------------------|----------------|---------------|-------------------------|--------------------|-----------------|------------------|------------------|--------------------|--------------------|--------------------|
| | GROSS BLOCK (AT COST) | | | DEPRECIATION/WRITE DOWN | | | | | NET BLOCK | | |
| | As at 31.3.2006 | Additions | Deductions | As at 31.3.2007 | As at 31.3.2006 | For the year | On deductions | Write down ** | As at 31.3.2007 | As at 31.3.2007 | As at 31.3.2006 |
| Goodwill | 1.20 | - | - | 1.20 | - | - | - | - | - | 1.20 | 1.20 |
| Patents and trade marks | 0.51 | - | - | 0.51 | - | - | - | - | - | 0.51 | 0.51 |
| Land (leasehold) | 437.46 [#] | - | - | 437.46 [#] | - | - | - | - | - | 437.46 | 437.46 |
| Land (freehold) | 377.93 | - | - | 377.93 | - | - | - | - | - | 377.93 | 377.93 |
| Buildings | 1155.60 [*] | 4.59 | 0.30 | 1159.89 [*] | 248.42 | 22.25 | 0.13 | - | 270.54 | 889.35 | 907.18 |
| Plant and machinery | 16561.34 | 595.64 | 59.89 | 17097.09 | 7911.73 | 1519.14 | 33.27 | 21.03 | 9418.63 | 7678.46 | 8649.61 |
| Electrical installation and equipments | 163.56 | 56.64 | 29.92 | 190.28 | 52.43 | 11.59 | 11.41 | - | 52.61 | 137.67 | 111.13 |
| Computers and Information technology equipments | 834.15 | 207.77 | 176.09 | 865.83 | 465.10 | 119.65 | 127.14 | - | 457.61 | 408.22 | 369.05 |
| Furniture, fixtures and office equipments | 1252.48 | 166.56 | 85.67 | 1333.37 | 521.83 | 76.11 | 41.00 | 4.67 | 561.61 | 771.76 | 730.65 |
| Motor vehicles | 1556.15 | 315.68 | 226.37 | 1645.46 | 424.44 | 157.84 | 94.52 | - | 487.76 | 1157.70 | 1131.71 |
| Total | <u>22340.38</u> | <u>1346.88</u> | <u>578.24</u> | <u>23109.02</u> | <u>9623.95</u> | <u>1906.58</u> | <u>307.47</u> | <u>25.70</u> | <u>11248.76</u> | <u>11860.26</u> | |
| Previous year | <u>20127.78</u> | <u>2512.38</u> | <u>299.78</u> | <u>22340.38</u> | <u>7854.53</u> | <u>1837.20</u> | <u>137.95</u> | <u>70.17</u> | <u>9623.95</u> | | 12716.43 |
| Capital work-in-progress and advances on capital account (net of write down of Rs. 6.55 lacs; previous year Rs. 14.07 lacs) | | | | | | | | | | <u>794.60</u> | <u>267.36</u> |
| | | | | | | | | | | <u>12654.86</u> | <u>12983.79</u> |

* includes Rs. 0.02 lac (previous year Rs. 0.02 lac) being the cost of shares in co-operative societies and Rs. 126.90 lacs (previous year Rs.125.90 lacs) towards cost of buildings for which titles are yet to be registered in the name of the Company.

** Write down of certain items identified for disposal to their expected realisable value.

[#] includes Rs. 425.98 lacs (previous year Rs. 425.98 lacs) in respect of a plot of land, title for which is yet to be registered in the name of the Company.

1. Estimated amount of contracts remaining to be executed on capital account and not provided for (net of capital advances) Rs. 2963.29 lacs (previous year Rs. 68.71 lacs).

2. Additions for the year are net of exchange gain (net) of Rs. 37.16 lacs (previous year - include exchange loss (net) of Rs. 53.00 lacs) on account of fluctuations in the rate of exchange including increase/decrease in rupee liability of long term foreign currency loan

3. Additions for the year include Rs. Nil (previous year Rs. 31.12 lacs) towards the amount of borrowing costs capitalised.

GODFREY PHILLIPS INDIA LIMITED

| | Rupees in lacs | |
|--|--------------------|--------------------|
| | As at 31.3.2007 | As at 31.3.2006 |
| SCHEDULE 5 - Investments | | |
| LONG TERM (At cost) | | |
| TRADE INVESTMENT - UNQUOTED | | |
| Subsidiary company | | |
| International Tobacco Company Limited | | |
| 1,00,000 Equity shares of Rs.100 each fully paid up | 100.00 | 100.00 |
| Others | | |
| Molind Engineering Limited | | |
| 3,500 Equity shares of Rs.10 each fully paid up | 0.25 | 0.25 |
| OTHER INVESTMENTS - QUOTED | | |
| Unit Trust of India | | |
| 3,83,900 6.75% Tax Free US64 Bonds of Rs.100 each | 383.90 | 383.90 |
| OTHER INVESTMENTS - UNQUOTED | | |
| Subsidiary companies: | | |
| Chase Investments Limited | | |
| 40,010 Equity shares of Rs.100 each fully paid up | 40.01 | 40.01 |
| 1,58,490 Equity shares of Rs.100 each Rs. 50 paid up | 79.24 | 79.24 |
| City Leasing and Finance Company Limited | | |
| 4,00,020 Equity shares of Rs.10 each fully paid up | 40.00 | 40.00 |
| 15,49,980 Equity shares of Rs.10 each Rs. 5.50 paid up | 85.25 | 85.25 |
| Manhattan Credits and Finance Limited | | |
| 19,50,000 Equity shares of Rs.10 each fully paid up | 195.00 | 195.00 |
| Others: | | |
| Success Principles India Limited | | |
| 1,99,673 Equity shares of Rs.10 each fully paid up | 19.97 | 19.97 |
| Modi Entertainers Networks Private Limited | | |
| 1,000 Equity shares of Rs.10 each fully paid up | 0.10 | 0.10 |
| Sundaram BNP Paribas Mutual Fund (Formerly Sundaram Mutual Fund) | | |
| 38,53,758 Units of Sundaram BNP Paribas Bond Saver - Appreciation of Rs.10 each | 597.31 | 597.31 |
| 23,01,943 Units of Sundaram BNP Paribas Bond Saver - Bonus (Bonus Units) of Rs.10 each | 236.84 | 236.84 |
| Nil (Previous year 10,00,000 Units of Sundaram Fixed Term Plan Series 1 Feb'06 (100 days)) | | |
| -Growth Plan of Rs.10 each (sold during the year) | - | 100.00 |
| Franklin Templeton Mutual Fund | | |
| 25,59,040 Units of Templeton India Income Fund - Growth of Rs. 10 each | 353.50 | 353.50 |
| 20,00,000 Units of Templeton Monthly Income Plan - Half Yearly Dividend of Rs.10 each | 198.18 | 198.18 |
| 24,11,636 (Previous year 35,84,037) Units of Templeton India Government Securities Fund - Growth Plan of Rs. 10 each | 398.40 | 597.23 |
| (11,72,401 Units sold during the year) | | |
| Nil (Previous year 14,33,918) Units of Templeton India Income Builder Account Plan A - Growth of Rs. 10 each (sold during the year) | - | 300.00 |
| 35,90,487 Units of Franklin Templeton Capital Safety Fund - 3 Years Plan - Growth of Rs.10 each (purchased during the year) | 359.05 | - |
| ICICI Prudential Mutual Fund | | |
| 68,52,202 (Previous year 103,08,923) Units of ICICI Prudential Income Plan - Growth of Rs. 10 each | 967.60 | 1455.72 |
| (34,56,721 Units sold during the year) | | |
| Nil (Previous year 25,56,402) Units of ICICI Prudential Gilt Fund Investment Plan - Growth of Rs. 10 each (sold during the year) | - | 398.12 |
| Nil (Previous year 45,38,687) Units of ICICI Prudential Flexible Income Plan - Growth of Rs. 10 each (sold during the year) | - | 500.00 |
| 99,68,157 (Previous year 100,00,000) Units of ICICI Prudential FMP - Growth Yearly XII Institutional of Rs.10 each (100,00,000 Units sold and 99,68,157 Units purchased during the year) | 1080.00 | 1000.00 |
| 50,00,000 Units of ICICI Prudential FMP Plan - Institutional Cumulative - XXVIII of Rs. 10 each | 500.00 | 500.00 |
| 47,15,379 Units of ICICI Prudential Blended Plan A - Growth of Rs.10 each (purchased during the year) | 500.00 | - |
| 30,00,000 Units of ICICI Prudential FMP Series 34 - One year Plan B Institutional Growth of Rs. 10 each (purchased during the year) | 300.00 | - |
| 131,55,625 Units of ICICI Prudential Hybrid FMP 13 Months Plan - Institutional - Growth of Rs. 10 each (purchased during the year) | 1315.56 | - |

GODFREY PHILLIPS INDIA LIMITED

| | Rupees in lacs | |
|--|--------------------|--------------------|
| | As at 31.3.2007 | As at 31.3.2006 |
| SCHEDULE 5- Investments (Continued) | | |
| Birla Mutual Fund | | |
| 42,47,005 Units of Birla Income Plus Plan B - Growth of Rs. 10 each | 757.68 | 757.68 |
| Nil (Previous year 14,12,030) Units of Birla Gilt Plus PF Plan - Growth of Rs. 10 each (sold during the year) | - | 199.02 |
| 12,46,416 Units of Birla Gilt Plus Regular Plan - Growth of Rs. 10 each | 199.37 | 199.37 |
| Nil (Previous year 100,00,000) Units of Birla Fixed Term Plan Series A - Growth of Rs. 10 each (sold during the year) | - | 1000.00 |
| 17,68,113 Units of Birla MIP Plan - Growth of Rs. 10 each | 277.78 | 277.78 |
| 50,00,000 Units of Birla FTP Series H - Growth of Rs. 10 each | 500.00 | 500.00 |
| 28,35,235 (Previous year 26,49,562) Units of Birla Sun Life Monthly Income - Quarterly Dividend - Reinvestment of Rs. 10 each (1,85,673 Units purchased during the year) | 319.83 | 299.44 |
| 100,00,000 Units of Birla FTP - Institutional - Series U - Growth of Rs. 10 each (purchased during the year) | 1000.00 | - |
| Kotak Mahindra Mutual Fund | | |
| 17,31,037 (Previous year 21,54,634) Units of Kotak Gilt (Investment Regular) - Growth of Rs. 10 each | 291.53 | 362.87 |
| (4,23,597 Units sold during the year) | | |
| 16,78,451 (Previous year 27,52,305) Units of Kotak Bond Regular - Growth of Rs. 10 each | 249.33 | 408.84 |
| (10,73,854 Units sold during the year) | | |
| 10,00,000 Units of Kotak Wealth Builder Series 1 - Growth of Rs. 10 each (purchased during the year) | 100.00 | - |
| 20,00,000 Units of Kotak Flexi Fund of Funds - Series II (Dividend) of Rs. 10 each (purchased during the year) | 200.00 | - |
| DSP Merrill Lynch Mutual Fund | | |
| 39,55,693 Units of DSP Merrill Lynch Bond Fund Retail - Growth of Rs. 10 each | 595.82 | 595.82 |
| SBI Mutual Fund | | |
| 34,44,028 Units of Magnum Income Fund - Growth Plan of Rs. 10 each | 397.87 | 397.87 |
| 22,92,313 Units of Magnum Monthly Income Plan - Growth Option of Rs. 10 each | 316.21 | 316.21 |
| Standard Chartered Mutual Fund | | |
| 22,40,889 (Previous year 136,53,406) Units of GSSG GSSIF - Investment Plan - Growth Option of Rs. 10 each | 269.48 | 1641.90 |
| (114,12,517 Units sold during the year) | | |
| 150,00,000 Units of Grindlays Fixed Maturity 7th Plan - B - Growth of Rs. 10 each | 1500.00 | 1500.00 |
| 50,00,000 Units of Standard Chartered Enterprise Equity Fund - Growth of Rs. 10 each (purchased during the year) | 500.00 | - |
| 1,37,87,625 Units of Standard Chartered Fixed Maturity Plan Yearly Series 1- Growth of Rs. 10 each (purchased during the year) | 1378.76 | - |
| HDFC Mutual Fund | | |
| 40,56,978 Units of HDFC Income Fund - Growth of Rs. 10 each | 471.19 | 471.19 |
| Nil (Previous year 16,58,375) Units of HDFC High Interest Fund - Growth Plan of Rs. 10 each (sold during the year) | - | 254.87 |
| DBS Chola Mutual Fund (Formerly Chola Mutual Fund) | | |
| Nil (Previous year 5,88,235) Units of DBS Chola Triple Ace - Regular - Cumulative of Rs. 10 each (sold during the year) | - | 99.38 |
| 7,85,989 Units of DBS Chola Triple Ace - Regular - Bonus- Bonus Units of Rs. 10 each | 88.89 | 88.89 |
| 30,00,000 Units of DBS Chola Fixed Maturity Plan - Series 6 (371 Days Plan) - Cumulative of Rs. 10 each (purchased during the year) | 300.00 | - |
| HSBC Mutual Fund | | |
| 50,00,000 Units of HSBC Fixed Term Series 13 Institutional Growth of Rs. 10 each | 500.00 | 500.00 |
| 100,00,000 Units of HSBC Fixed Term Series 9 - Growth of Rs. 10 each (purchased during the year) | 1000.00 | - |
| 100,00,000 Units of HSBC Fixed Term Series 15 - Institutional - Growth of Rs. 10 each (purchased during the year) | 1000.00 | - |
| Principal Mutual Fund | | |
| Nil (Previous year 14,01,384) Units of Principal Income Fund - Growth Plan of Rs. 10 each (sold during the year) | - | 200.00 |
| Nil (Previous year 20,00,000) Units of Principal Deposit Fund (FMP - 6) 371 Days Plan Mar 05 - Growth Rs. 10 each (sold during the year) | - | 200.00 |
| 38,42,983 Units of Principal Income Fund - Growth Plan of Rs.10 each (purchased during the year) | 400.20 | - |
| 30,00,000 Units of PNB Fixed Maturity Plan - (FMP-37) 385 Days - Series IV - Mar 07 | | |
| Institutional Growth Plan of Rs. 10 each | 300.00 | - |
| (purchased during the year) | | |
| UTI Mutual Fund | | |
| Nil (Previous year 13,93,338) Units of UTI Bond Advantage Fund Growth Plan of Rs. 10 each (sold during the year) | - | 205.54 |
| Nil (Previous year 50,00,000) Units of UTI Fixed Maturity Plan - (YFM P/02/05) Growth Plan of Rs. 10 each (sold during the year) | - | 500.00 |
| 100,00,000 Units of UTI - Fixed Maturity Plan - (YFMP/0906) Growth Plan of Rs. 10 each (purchased during the year) | 1000.00 | - |

GODFREY PHILLIPS INDIA LIMITED

| | Rupees in lacs | |
|--|--------------------|--------------------|
| | As at 31.3.2007 | As at 31.3.2006 |
| SCHEDULE 5- Investments (Continued) | | |
| Reliance Mutual Fund | | |
| 14,11,423 Units of RMTF - Retail Plan - Growth Plan - Bonus Option of Rs. 10 each | 142.86 | 142.86 |
| Nil (Previous year 50,00,000) Units of Reliance Fixed Maturity Fund - Annual Plan - Series1- Growth Option of Rs. 10 each (sold during the year) | - | 500.00 |
| 9,72,195 Units of RIF Retail Plan - Growth of Rs. 10 each | 100.00 | 100.00 |
| 100,00,000 Units of Reliance Fixed Horizon Fund I - Annual Plan - Series III Institutional Growth Plan of Rs. 10 each (purchased during the year) | 1000.00 | - |
| 50,00,000 Units of Reliance Fixed Horizon Fund II - Annual Plan - Series II - Institutional Growth Plan of Rs. 10 each (purchased during the year) | 500.00 | - |
| Deutsche Mutual Fund | | |
| Nil (Previous year 50,00,000) Units of Deutsche Fixed Term Fund - Growth Option of Rs. 10 each (sold during the year) | - | 500.00 |
| TATA Mutual Fund | | |
| Nil (Previous year 50,00,000) Units of TATA Fixed Horizon Fund Series 1- Plan A (371 days) - Growth of Rs. 10 each (sold during the year) | - | 500.00 |
| Nil (Previous year 100,00,000) Units of TATA Fixed Horizon Fund Series 3 - Scheme B (6 Months) - Growth of Rs. 10 each (sold during the year) | - | 1000.00 |
| ING Vysya Mutual Fund | | |
| Nil (Previous year 19,69,066) Units of ING Vysya Select Debt Fund - Growth of Rs. 10 each (sold during the year) | - | 200.00 |
| 16,67,838 Units of ING Vysya Income Fund - Short Term Plan - Growth option of Rs. 10 each (purchased during the year) | 219.25 | - |
| 100,00,000 Units of ING Vysya Fixed Maturity Fund - XXIV - Growth of Rs. 10 each (purchased during the year) | 1000.00 | - |
| Government Securities (Lodged as security with Government Authorities) | 0.36 | 0.36 |
| | 24626.57 | 21100.51 |
| Aggregate amount of quoted investments | 383.90 | 383.90 |
| Aggregate amount of unquoted investments: | | |
| -Units of Mutual Funds | 23682.49 | 20156.43 |
| -Others | 560.18 | 560.18 |
| | 24242.67 | 20716.61 |
| Market value of quoted investments | 390.00 | 390.39 |
| Net asset value/repurchase price of units of Mutual Funds | 27788.57 | 24199.51 |

Note:
Details of current investments purchased and sold during the year:
- ING Vysya Liquid Fund Super Institutional - Growth Option 7,04,47,714 Units of Rs. 10 each at cost of Rs. 7780 lacs.
- Standard Chartered Liquidity Manager - Plus - Growth 21,87,252 Units of Rs. 1000 each at cost of Rs. 22470 lacs.
- Birla Cash Plus - Institutional Premium - Growth 13,00,98,316 of Rs. 10 each at cost of Rs. 14735 lacs.
- Birla Sun Life Cash Manager Institutional Plan - Growth 7,08,53,458 of Rs.10 each at cost of Rs. 8730 lacs.
- ICICI Prudential Liquid Plan Institutional Plus - Growth Option 5,75,41,683 Units of Rs. 10 each at cost of Rs. 5935 lacs.
- Mangnum Insta Cash Fund Liquid Floater Plan - Growth 40,28,002 Units of Rs. 10 each at cost of Rs. 500 lacs.
- UTI Liquid Cash Plan Institutional - Growth Option 5,30,800 Units of Rs. 1000 each at cost of Rs. 6330 lacs.
- UTI Money Market Fund - Growth Plan 30,49,165 Units of Rs. 20 each at cost of Rs. 620 lacs.
- ICICI Prudential Sweep Cash Option Cumulative 2,77,09,013 Units of Rs.10 each at cost of Rs. 2980 lacs.
- Templeton India Treasury Management Account Super Institutional Plan - Growth 7,28,923 Units of Rs.1000 each at cost of Rs. 7670 lacs.
- Tata Liquid Super High Investment Fund - Appreciation 11,59,531 Units of Rs. 1000 each at cost of Rs. 15495 lacs.
- SBI Debt Fund Series - 90 Days (May 06) - Dividend Option 50,00,000 Units of Rs.10 each at cost of Rs. 500 lacs.
- UTI Money Market Fund - Growth Plan 50,00,000 Units of Rs.10 each at cost of Rs. 500 lacs.
- UTI - Fixed Maturity Plan - (QFMP/0506/1) Growth Plan 50,00,000 Units of Rs. 10 each at cost of Rs. 500 lacs.
- Principal Income Fund - Growth Plan 57,59,733 Units of Rs. 10 each at cost of Rs. 599.80 lacs.

GODFREY PHILLIPS INDIA LIMITED

| | Rupees in lacs | |
|--|--------------------|--------------------|
| | As at 31.3.2007 | As at 31.3.2006 |
| SCHEDULE 6 - Inventories | | |
| At cost or under: | | |
| Stores and spare parts | 425.52 | 443.25 |
| At lower of cost and net realisable value: | | |
| Raw and packing materials | 10054.32 | 8752.88 |
| Work-in-process | 124.62 | 102.03 |
| Finished goods - Cigarettes | 3214.84 | 4546.15 |
| - Cigars | 174.86 | 119.37 |
| Other goods | 729.73 | 602.27 |
| Real estate* | 405.69 | 405.69 |
| | 15129.58 | 14971.64 |
| *Includes land at revalued cost | | |
| SCHEDULE 7- Sundry debtors | | |
| CONSIDERED GOOD | | |
| Over six months - unsecured | 17.45 | 1.17 |
| Others - secured | 4.10 | 3.43 |
| - unsecured | 1548.06 | 1148.49 |
| CONSIDERED DOUBTFUL | | |
| Over six months - unsecured | 70.96 | 74.16 |
| Others - unsecured | 5.24 | 4.41 |
| | 1645.81 | 1231.66 |
| | 76.20 | 78.57 |
| | 1569.61 | 1153.09 |
| Less: Provision for doubtful debts | | |
| SCHEDULE 8 - Cash and bank balances | | |
| Cash on hand | 24.30 | 15.89 |
| Cheques on hand | 710.90 | 120.10 |
| With scheduled banks : On current accounts | 653.89 | 495.25 |
| : On margin money accounts | 38.06 | 36.72 |
| : On fixed deposit accounts** | 0.45 | 0.45 |
| | 1427.60 | 668.41 |
| ** Lodged as security with Government Authorities | | |
| SCHEDULE 9 - Loans and advances | | |
| Unsecured, considered good, unless otherwise stated: | | |
| Advances recoverable in cash or in kind or for value to be received* | 1677.13 | 1789.09 |
| Considered doubtful | - | 64.87 |
| | 1677.13 | 1853.96 |
| Less: Provision for doubtful advances | - | 64.87 |
| | 1677.13 | 1789.09 |
| Inter corporate deposits | 975.00 | 825.00 |
| Dues from subsidiary companies ** | 3754.08 | 3591.11 |
| With excise and customs on current/cenvat accounts | 95.71 | 627.58 |
| Income-tax recoverable | 840.55 | 840.72 |
| | 7342.47 | 7673.50 |

- * Includes:
i) Rs. 4.85 lacs (previous year Rs . 0.37 lac) due from officer/directors of the Company. Maximum amount due during the year Rs. 8.97 lacs (previous year Rs.2.81 lacs).
ii) Rs. 0.12 lac (previous year Rs. 0.05 lac) due from Modipon Ltd., a company under the same management. Maximum amount due during the year Rs.0.14 lac (previous year Rs. 0.11 lac).
iii) Rs. Nil (previous year Rs. 0.03 lac) due from a private company in which some of the directors of the Company are directors.

- ** Dues from subsidiaries represent loans and advances recallable on demand and comprise of:
i) Interest free loans to Kashyap Metal and Allied Industries Limited (given prior to insertion of section 372A on October 31, 1998) Rs. 342.65 lacs (previous year Rs. 342.65 lacs). Maximum amount due during the year Rs. 342.65 lacs (previous year Rs. 342.65 lacs).
ii) Interest bearing loans/advances to:
(a) Loans to Kashyap Metal and Allied Industries Limited Rs. 1543.08 lacs including interest (net of tax) for the year (previous year Rs. 1205.05 lacs). Maximum amount due during the year Rs. 1543.08 lacs (previous year Rs. 1205.05 lacs).
(b) Advances to International Tobacco Company Limited Rs.1868.35 lacs (previous year Rs. 2043.41 lacs). Maximum amount due during the year Rs. 2088.05 lacs (previous year Rs. 2043.41 lacs).

GODFREY PHILLIPS INDIA LIMITED

| | Rupees in lacs | |
|---|------------------------------------|------------------------------------|
| | As at 31.3.2007 | As at 31.3.2006 |
| SCHEDULE 10 - Current liabilities | | |
| Sundry creditors # | | |
| Dues of small scale industrial undertakings (Refer Note 8) | 775.28 | 796.95 |
| Dues of other than small scale industrial undertakings | 8320.89 | 9127.94 |
| Interest accrued but not due on loans and deposits | 32.97 | 42.70 |
| | <u>9129.14</u> | <u>9967.59</u> |
| # Sundry creditors do not include any amounts outstanding as on March 31, 2007 which are required to be credited to the Investor Education and Protection Fund. | | |
| SCHEDULE 11 - Provisions | | |
| Proposed dividend | 2599.70 | 2339.72 |
| Provision for corporate dividend tax | 441.82 | 328.15 |
| Taxation (net of payments) | 815.98 | 743.35 |
| Provision for encashable leave salary | 1532.96 | 1294.03 |
| | <u>5390.46</u> | <u>4705.25</u> |
| SCHEDULE 12 - Deferred taxation | | |
| Deferred tax liabilities | | |
| - Accelerated depreciation | 889.89 | 1004.80 |
| - Capital gains | 109.73 | 63.80 |
| | <u>999.62</u> | <u>1068.60</u> |
| Deferred tax assets | | |
| - Accrued expenses deductible on payment | 618.28 | 612.36 |
| - Provision for doubtful debts/advances | 25.90 | 48.28 |
| | <u>644.18</u> | <u>660.64</u> |
| Deferred tax liabilities - net | <u>355.44</u> | <u>407.96</u> |
| | For the year ended 31.3.2007 | For the year ended 31.3.2006 |
| SCHEDULE 13 - Other income | | |
| Rent and hire charges (gross) from: | | |
| - Subsidiary company | 4.80 | 4.80 |
| - Others | 100.32 | 90.91 |
| Interest (gross) from: | | |
| - Subsidiary companies | 245.05 | 200.98 |
| - Debts, deposits, loans, etc. | 131.14 | 234.17 |
| Income (gross) from other long term investments: | | |
| - Dividends | 31.01 | 30.25 |
| - Interest | 25.91 | 25.91 |
| Profit on redemption/sale of other long term investments | 1885.91 | 191.81 |
| Profit on sale of other current investments | 344.40 | 273.10 |
| Doubtful debts and advances written back | 5.70 | - |
| Export incentives | 82.08 | 164.30 |
| Sundries | 503.53 | 444.61 |
| | <u>3359.85</u> | <u>1660.84</u> |
| Tax deducted at source: | | |
| Interest income | 74.92 | 63.87 |
| Rent and hire charges | 19.60 | 17.80 |
| Sundries | 0.45 | 0.28 |

GODFREY PHILLIPS INDIA LIMITED

| | Rupees in lacs | |
|--|------------------------------------|------------------------------------|
| | For the year ended 31.3.2007 | For the year ended 31.3.2006 |
| SCHEDULE 14 - Raw and packing materials, manufactured and other goods | | |
| Raw and packing materials consumed | 18997.06 | 16741.55 |
| Manufacturing charges paid to a subsidiary company for cigarettes manufactured on our behalf | 2851.65 | 2570.01 |
| Purchases for resale (including transferred from raw and packing materials) | 7829.03 | 7426.06 |
| (Increase)/decrease in work-in-process, finished goods and other goods | | |
| Opening stock: | | |
| - Work-in-process | 102.03 | 89.66 |
| - Finished goods - Cigarettes | 4546.15 | 2880.80 |
| - Cigars | 119.37 | 56.76 |
| - Other goods | 602.27 | 545.32 |
| - Real estate | 405.69 | 405.69 |
| | <u>5775.51</u> | <u>3978.23</u> |
| Closing stock: | | |
| - Work-in-process | 124.62 | 102.03 |
| - Finished goods - Cigarettes | 3214.84 | 4546.15 |
| - Cigars | 174.86 | 119.37 |
| - Other goods | 729.73 | 602.27 |
| - Real estate | 405.69 | 405.69 |
| | <u>4649.74</u> | <u>5775.51</u> |
| | <u>1125.77</u> | <u>(1797.28)</u> |
| | <u>30803.51</u> | <u>24940.34</u> |

GODFREY PHILLIPS INDIA LIMITED

| | Rupees in lacs | |
|--|---------------------------------|---------------------------------|
| | For the year ended 31.3.2007 | For the year ended 31.3.2006 |
| SCHEDULE 15 - Manufacturing and other expenses | | |
| Salaries, wages and bonus | 5010.71 | 4569.20 |
| Contribution to provident and other funds (including administrative charges) | 355.09 | 313.33 |
| Workmen and staff welfare expenses | 591.35 | 581.23 |
| Contribution to gratuity and superannuation fund | 679.22 | 503.97 |
| Consumption of stores and spare parts | 26.29 | 38.33 |
| Power and fuel | 508.17 | 438.62 |
| Repairs and maintenance - Buildings | 196.75 | 157.68 |
| - Machinery | 262.18 | 217.78 |
| - Others | 227.40 | 203.73 |
| Rent (including Rs. 28.07 lacs; previous year Rs. 26.56 lacs to a subsidiary company) | 716.08 | 609.84 |
| Rates and taxes | 3722.16 | 3676.70 |
| Insurance | 325.96 | 287.59 |
| Freight and cartage | 1111.53 | 869.37 |
| Legal and professional expenses | 1489.30 | 1452.33 |
| Auditors' remuneration | 73.19 | 63.74 |
| Interest - Fixed loans | 272.77 | 219.41 |
| - Others | 19.51 | 58.89 |
| Cash discount | 61.07 | 48.37 |
| Commission paid to other than sole selling agents | 113.25 | 129.15 |
| Advertising and sales promotion | 11198.18 | 11050.95 |
| Selling and distribution expenses | 1762.01 | 1714.26 |
| Travelling and conveyance | 1611.46 | 1577.44 |
| Donations | 130.48 | 64.66 |
| Bad debts and advances written off | 0.38 | 0.67 |
| Provision for doubtful debts and advances | 3.33 | 6.90 |
| Fixed assets written off/written down | 64.37 | 99.13 |
| Loss on sale of fixed assets | 119.63 | 39.11 |
| Technical services fee and royalty | 666.87 | 623.93 |
| Miscellaneous expenses | 3302.75 | 3173.23 |
| | <u>34621.44</u> | <u>32789.54</u> |
| (a) Consumption of stores and spare parts has been computed after deducting the amount of spare parts charged to repairs and maintenance - machinery | 196.54 | 158.87 |
| (b) Insurance has been computed after deducting the amount for transit insurance charged to raw and packing materials, stores, etc. | 11.90 | 13.41 |

GODFREY PHILLIPS INDIA LIMITED
SCHEDULE 16 Notes to the accounts for the year ended March 31, 2007
1. SIGNIFICANT ACCOUNTING POLICIES

The financial statements are prepared under the historical cost convention in accordance with applicable accounting standards and relevant presentational requirements of the Companies Act, 1956.

i) Fixed assets and depreciation

Fixed assets are stated at cost of acquisition or construction less accumulated depreciation and include interest on loans attributable to the acquisition of assets upto the date of their commissioning.

Value of goodwill and patents and trade marks is not amortized because, in view of the management, there is no diminution in their value. No amortization is done in respect of leasehold land in view of the lease being perpetual.

Depreciation in the accounts is charged on the straight line method at the rates prescribed under the Companies Act, 1956 and is calculated on a full year basis on additions during the year and no depreciation is provided on assets deleted during the year. Extra shift depreciation is computed in full on a concern basis and not prorated to the number of days of shift working. Assets, other than items costing upto Rs. 5000 each, are depreciated upto 95% of their value and 5% residual value is retained in the books.

The depreciation rates which are different from the principal rates specified in Schedule XIV of the Companies Act, 1956 are as follows:-

| | |
|--|-----|
| Items of machinery and equipment costing upto Rs. 5,000 each | |
| acquired upto December 16, 1993 | 95% |

| | |
|---|---|
| Assets, other than data processing equipment, acquired upto December 31, 1987 and data processing equipment acquired upto December 31, 1986 | SLM equivalent of rates applicable under the Income-tax Rules, 1962 at the time of acquisition of such assets |
|---|---|

ii) Investments

Long term investments are stated at cost net of provision for permanent diminution, if any. Current investments are stated at cost or fair value, whichever is lower.

iii) Inventories

Inventories are valued at cost or net realisable value, whichever is lower except stores and spare parts which are valued at cost or under and real estate which is valued at revalued cost of land and construction thereon at cost. The cost of raw materials, stores and spares and other goods is determined on monthly weighted average cost basis. The cost of finished goods and work-in-process is determined on standard absorption cost basis which approximates actual costs. Absorption cost comprises raw materials cost, direct wages, appropriate share of production overheads and applicable excise duty paid/payable thereon.

iv) Revenue recognition

Sale of goods is recognised at the point of despatch of goods to customers. Sales are inclusive of excise duty where applicable but exclusive of sales tax. Income from investments is recognised on an accrual basis

v) Retirement benefits

The Company has various schemes of retirement benefits such as provident fund, superannuation fund and gratuity fund duly recognised by the Income-tax authorities. The funds are administered through trustees and the Company's contributions are charged against the revenue every year. Accrued liability for gratuity and leave salary encashable on retirement are determined on the basis of actuarial valuation at the end of the financial year.

vi) Income-tax

Provision for income-tax is based on the assessable profits computed in accordance with the provisions of the Income-tax Act, 1961.

Deferred tax is recognised, subject to the consideration of prudence, on timing differences, being the differences between taxable income and accounting income that originate in one period and are capable of reversal in one or more subsequent periods.

vii) Proposed dividends

Dividends proposed by the directors as appropriation of profits are provided for in the books of account, pending approval of shareholders at the annual general meeting.

viii) Research and development expenditure

Research and development expenditure is charged to revenue under the natural heads of account in the year in which it is incurred.

ix) Foreign currency transactions

Transactions in foreign currency are recorded at the exchange rates prevailing at the time of transactions. Gains/losses on settlement of the transactions are taken to the relevant revenue heads in the profit and loss account except where the foreign currency liabilities have been incurred in connection with fixed assets acquired upto March 31, 2004 and subsequent thereto in case of fixed assets acquired from a country outside India, where the exchange differences are adjusted in the carrying amount of concerned fixed assets. Other monetary items are translated at the year end rates and the gains/losses are taken to the relevant revenue heads in the profit and loss account.

The difference between the forward rate and the exchange rate at the date of the forward contract transaction is recognised as income or expense over the life of the contract in the profit and loss account. The exchange difference on such contracts i.e. difference between the exchange rate at the reporting/settlement date and the exchange rate on the date of inception of the contract/the last reporting date, is recognised as income or expense for the period except where the foreign exchange liabilities have been incurred in connection with fixed assets acquired upto March 31, 2004 and subsequent thereto in case of fixed assets acquired from a country outside India, where the exchange differences are adjusted in the carrying amount of concerned fixed assets.

GODFREY PHILLIPS INDIA LIMITED

SCHEDULE 16 Notes to the accounts (contd.)

| | Rupees in lacs | |
|--|------------------------------|------------------------------|
| | For the year ended 31.3.2007 | For the year ended 31.3.2006 |
| 2. REMUNERATION OF DIRECTORS | | |
| a) Included in Schedule 15 are: | | |
| Salaries* | 81.36 | 81.18 |
| Monetary value of benefits | 31.49 | 29.03 |
| Commission | 56.80 | 56.80 |
| Sitting fees | 9.20 | 9.00 |
| | <u>178.85</u> | <u>176.01</u> |
| *excludes incremental liability for gratuity and encashable leave salary which are actuarially determined on an overall basis. | | |
| b) Computation of directors' commission and net profit in accordance with Section 198 of the Companies Act, 1956 | | |
| Profit before taxation | 13522.88 | 9969.36 |
| Add/(less): | | |
| Directors' remuneration | 178.85 | 176.01 |
| Profit on redemption/sale of other long term investments | (1885.91) | (191.81) |
| Bad debts and advances written off against provision | (64.87) | (32.91) |
| Provision for doubtful debts and advances (net) | (2.37) | 6.90 |
| | <u>11748.58</u> | <u>9927.55</u> |
| Maximum commission payable to the three working Directors @ 4% of the above profit | 469.94 | 397.10 |
| Restricted to | 56.80 | 56.80 |
| 3. AUDITORS' REMUNERATION* | | |
| As auditors | | |
| Audit fee | 31.00 | 27.50 |
| Out of pocket expenses | 3.49 | 3.07 |
| In other capacity | | |
| For limited review of unaudited financial results | 21.75 | 18.75 |
| For corporate governance, consolidated financial statements and other certification work | 3.11 | 2.13 |
| For tax audit | 8.50 | 6.00 |
| For management consultancy | - | 2.00 |
| For miscellaneous certificates | 5.34 | 4.29 |
| | <u>73.19</u> | <u>63.74</u> |
| *Net of service tax | | |
| 4. EXPENDITURE ON SCIENTIFIC RESEARCH AND DEVELOPMENT | | |
| Revenue expenditure | 356.43 | 310.75 |
| Capital expenditure | 58.64 | 305.97 |

GODFREY PHILLIPS INDIA LIMITED

SCHEDULE 16 Notes to the accounts (contd.)

| | Rupees in lacs | |
|--|-----------------|-----------------|
| | As at 31.3.2007 | As at 31.3.2006 |
| 5. CONTINGENT LIABILITIES NOT PROVIDED FOR | | |
| a) Demands from excise, sales tax and other authorities disputed by the Company | 288.50 | 781.12 |
| b) Undertaking given to a bank in respect of cash credit facilities granted to the subsidiary company - International Tobacco Company Limited upto the limit of Rs. 150 lacs which is secured by hypothecation of stocks of that company. The actual overdrawn balance as on March 31, 2007 was Rs. Nil; previous year Rs. Nil | | |
| c) Uncalled liability on shares partly paid | 148.99 | 148.99 |
| 6. The following are the particulars of dues on account of sales tax, excise duty and income-tax as at March 31, 2007 that have been disputed by the Company in appeals pending before the appellate authorities: | | |

| Name of the statute | Nature of the dues | Amount of dues* (Rs. lacs) | Amount deposited (Rs. lacs) | Period to which the amount relates | Forum where dispute is pending |
|---------------------|--------------------|----------------------------|-----------------------------|--|---|
| Sales Tax Laws | Sales tax | 0.83 | 0.25 | 1995-96, 2001-02 | Sales Tax Tribunal |
| | | 42.23 | 15.16 | 1997-98 to 1999-00, 2001-02 to 2006-07 | Upto Commissioners' Level |
| Central Excise Law | Excise duty | 16.96 | - | 2000-01 to 2002-03, 2004-05 to 2006-07 | Upto Commissioners' Level |
| | | 7.18 | - | 2004-05 to 2005-06 | Customs Excise Service Tax Appellate Tribunal |
| Income Tax Law | Income Tax | 244.00** | 244.00 | 1980 to 1983, 1995-96 to 1997-98 | High Court |
| | | 167.55** | 167.55 | 1999-00 to 2002-03 | Income Tax Appellate Tribunal |
| | | 182.19** | - | 2001-02 to 2003-04 | Upto Commissioners' Level |

* amount as per demand orders, including interest and penalty, where quantified in the Order.

** provided for in the accounts.

Further, there are no dues of wealth tax, customs duty and service tax which have not been deposited on account of any disputes.

GODFREY PHILLIPS INDIA LIMITED

SCHEDULE 16 Notes to the accounts (contd.)

Further, as per information available with the Company, the concerned authority is in appeal against favourable orders received by the Company in respect of the following matters:

| Name of the statute | Nature | Amount (Rs. lacs) | Period to which the amount relates | Forum where department has preferred appeal |
|------------------------------------|------------|-------------------|--|---|
| Income Tax Law | Income tax | 299.46 | 1969, 1974 to 1977, 1991-92 to 1994-95 | High Court |
| | | 189.01 | 1998-99 to 2001-02 | Income Tax Appellate Tribunal |
| U.P.Krishi Utpadan Mandi Adhiniyam | Mandi cess | 108.20 | 1997-98 to 1998-99 | Supreme Court |

7. The Company and its contract manufacturer have received various show cause notices from Excise Authorities asking them to explain why certain amounts mentioned in these notices should not be paid. As these notices are in the nature of explanations required, the Company does not consider these to constitute a liability of any kind.

8. a) Small scale undertakings have been identified by the Company on the basis of information provided to it by its suppliers. The names of such undertakings to whom dues are outstanding for more than 30 days as at March 31, 2007 are Hitkari Multifilters Limited, Studio Printall (N.Delhi) Pvt.Ltd., Perfect Industries, Packfine Corrugating Industries, S&S Packaging, Tapan Engineering Works, Trival Boards Pvt. Ltd., Quality Tape Manufacturers, Perfect Engineering Works, Radix Microsystems, Image India Private Limited, Anand Packing Private Limited, Raghushree Packaging Pvt. Ltd, Amla Engineering Works, Assam Cigarette Company Pvt.Ltd., R C Tobacco Pvt.Ltd., Autonum Controls Pvt.Ltd., Excellent Manufacturing Co., Netel (India) Ltd., Ultrakash Brush Works, Image India Private Limited, Agarwal Ceramics, Markwell Paper Plast Pvt.Ltd., Prime Housewares Limited, Vimal Hi-Tech Pvt.Ltd. and Sunraj Industries.

8. b) Sundry creditors include Rs.16.69 lacs due to suppliers covered under "The Micro, Small and Medium Enterprises Act 2006" to the extent such parties have been identified from the available information. The Company has not received any claim for interest from any supplier under the said Act.

9. The Company has entered into various operating lease agreements for premises (residential, offices, godowns, etc.). These lease arrangements are cancellable in nature and range between two to three years and are usually renewable by mutual consent on mutually agreeable terms. The aggregate rentals paid under such agreements have been charged as rent in Schedule 15.

The Company, pursuant to the contract manufacturing arrangement with its wholly owned subsidiary company International Tobacco Company Limited, has taken from it certain plant and machinery and equipments for use in its manufacturing operations. Hire charges payable in respect thereof have been charged as rent in Schedule 15.

The Company has let out and sub-let part of its owned and rented office premises under lease arrangements which are cancellable in nature but renewable on mutually agreeable terms. The rent and hire charges receivable in respect thereof have been accrued as income in Schedule 13.

10. Exchange gain included in the profit and loss account for the year is Rs. 6.78 lacs (previous year exchange loss Rs. 6.15 lacs).

11. Related party disclosures under Accounting Standard 18
(A) Names of related parties and nature of related party relationships:
(a) Subsidiary companies:

International Tobacco Company Limited
Chase Investments Limited
City Leasing and Finance Company Limited
Manhattan Credits and Finance Limited
Kashyap Metal and Allied Industries Limited
Unique Space Developers Limited

(b) Subsidiaries of the subsidiary companies:
Rajputana Infrastructure Corporate Limited
Gopal Krishna infrastructure & Real Estate Limited

(c) Associates:
Philip Morris International Finance Corporation, of which the Company is an associate.
Success Principles India Limited, an associate of the Company.

(d) Key management personnel:

| | |
|----------------------|---------------------------------|
| Mr. K.K.Modi | President and Managing Director |
| Mr. Lalit Kumar Modi | Executive Director |
| Mr. Samir Kumar Modi | Executive Director |
| Mr. S.V.Shanbhag | Whole-time Director |

(e) Enterprises over which key management personnel and their relatives are able to exercise significant influence:
Modi Entertainment Limited
Modicare Limited
Modern Homecare Products Limited
K.K.Modi Investment & Financial Services Private Limited
Beacon Travels Private Limited
Modipon Limited
Assam Cigarette Company Private Limited
R C Tobacco Private Limited
HMA Udyog Private Limited
Kaushambi Investment & Leasing Company Private Limited
Bina Fashion N Food Private Limited
Modicare Foundation
Modi Apollo International Group Private Limited
Priyal Hitay Nidhi
Colorbar Cosmetics Private Ltd.
Gujarmal Modi Science Foundation
Ananda Embroidery Industries Pvt.Ltd.
Modi Healthcare Placement India Pvt.Ltd.

GODFREY PHILLIPS INDIA LIMITED

SCHEDULE 16 Notes to the accounts (contd.)

(B) Disclosure of transactions between the Company and related parties and the status of outstanding balances as at the year end:

Rupees in lacs

| Nature of transactions | Subsidiary companies | | Associates | | Key management personnel | | Enterprises over which significant influence exists | |
|--|----------------------|----------|------------|--------|--------------------------|--------|---|-----------|
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| Sale of goods, spare parts, etc. | 1.33 | 4.00 | - | - | 0.60 | - | 3.60 | 10.83 |
| Purchase of goods/services | 7.62 | 0.94 | - | - | - | - | 604.18 # | 6724.78 # |
| Purchase of fixed assets | - | - | - | - | - | - | 4.08 | 0.97 |
| Loans given | | | | | | | | |
| - Kashyap Metal and Allied Industries Ltd. | 331.00 | 78.50 | - | - | - | - | - | - |
| Interest income | 245.05 | 200.98 | - | - | - | - | - | - |
| Rent and hire charges received | 4.80 | 4.80 | - | - | - | - | 94.92 | 76.77 |
| Manufacturing charges paid | | | | | | | | |
| - International Tobacco Company Ltd. | 2851.65 | 2570.01 | - | - | - | - | - | - |
| Rent paid | 28.07 | 26.56 | - | - | - | - | 22.41 | 19.35 |
| Payments for employees on deputation | - | - | - | - | - | - | 82.17 | 72.90 |
| Donation given | - | - | - | - | - | - | 95.60 | 28.50 |
| Expenses recovered | 11.12 | 50.57 | - | - | 0.53 | 0.54 | 2.27 | 1.76 |
| Expenses reimbursed | 595.87 * | 647.84 * | - | - | - | - | 4.89 | 4.47 |
| Dividend payment (gross) | | | | | | | | |
| - Philip Morris International Finance Corpn. | - | - | 840.76 | 822.07 | - | - | - | - |
| Managerial remuneration## | - | - | - | - | 169.64 | 167.01 | - | - |
| Provision for doubtful advances written back | - | - | - | - | - | - | - | 2732.64 @ |
| Balance outstanding as at the year end | | | | | | | | |
| - Loans and advances | 3754.08 | 3591.11 | - | - | 0.01 | 0.33 | 7.22 | 1.72 |
| - Sundry creditors | - | - | - | - | 0.29 | 0.24 | 742.76 | 733.67 |
| - Undertaking given to a bank | 150.00 | 150.00 | - | - | - | - | - | - |

* comprising reimbursements to wholly owned subsidiary, International Tobacco Company Limited for payments made by them for and on behalf of the Company under the contract manufacturing arrangement, out of the funds made available by the Company.

includes Rs. 523.32 lacs (previous year Rs. 507.03 lacs) from Beacon Travels Private Ltd. Current year figure includes sums of Rs. Nil (Previous year Rs. 2489.76 lacs) relating to Assam Cigarettes Company Pvt. Ltd. and Rs. Nil (previous year Rs. 3682.02 lacs) to R C Tobacco Pvt. Ltd. towards additional consideration for cigarettes purchased in an earlier year.

excludes incremental liability for gratuity and encashable leave salary which are actuarially determined on an overall basis.

@ relates to Assam Cigarette Company Pvt. Ltd. and R C Tobacco Pvt. Ltd.

12. Segment reporting disclosures under Accounting Standard 17

(A) Business segments:

Based on the guiding principles given in Accounting Standard-17 "Segment Reporting" issued by the Institute of Chartered Accountants of India, the Company's primary business segments are (a) Cigarette and tobacco products; and (b) Tea and other retail products.

(B) Geographical segments:

Since the Company's activities/operations are primarily within the country and considering the nature of products it deals in, the risks and returns are same and as such there is only one geographical segment.

GODFREY PHILLIPS INDIA LIMITED

SCHEDULE 16 Notes to the accounts (contd.)

Financial information about the primary business segments is presented in the table below:

| | Rupees in lacs | | | | | |
|---|-----------------------------------|-------------------------------|-----------|-----------------------------------|-------------------------------|-----------|
| | Cigarette and tobacco products | Tea and other retail products | Total | Cigarette and tobacco products | Tea and other retail products | Total |
| | For the year ended March 31, 2007 | | | For the year ended March 31, 2006 | | |
| 1. Segment revenue - External sales (gross) | 153906.13 | 5770.66 | 159676.79 | 138323.53 | 4863.65 | 143187.18 |
| - Less : Excise duty | 83528.33 | - | 83528.33 | 74770.57 | - | 74770.57 |
| - Net sales | 70377.80 | 5770.66 | 76148.46 | 63552.96 | 4863.65 | 68416.61 |
| - Other income | 851.92 | 34.78 | 886.70 | 799.95 | 51.75 | 851.70 |
| - Total | 71229.72 | 5805.44 | 77035.16 | 64352.91 | 4915.40 | 69268.31 |
| - Unallocable income | | | 2473.15 | | | 809.14 |
| Total revenue | | | 79508.31 | | | 70077.45 |
| 2. Segment result | 12135.61 | (651.75) | 11483.86 | 9977.50 | (461.71) | 9515.79 |
| - Unallocable income net of unallocable expenses | | | 2325.67 | | | 729.48 |
| Profit before interest and taxation | | | 13809.53 | | | 10245.27 |
| - Interest expenses | | | (286.65) | | | (275.91) |
| - Provision for taxation | | | (4712.46) | | | (3956.40) |
| Profit after taxation | | | 8810.42 | | | 6012.96 |
| 3. Other information | As at March 31, 2007 | | | As at March 31, 2006 | | |
| a) Segment assets | 31706.09 | 1701.25 | 33407.34 | 31830.73 | 1482.67 | 33313.40 |
| - Unallocable assets/investments | | | 29356.07 | | | 25252.71 |
| Total assets | | | 62763.41 | | | 58566.11 |
| b) Segment liabilities | 9927.36 | 569.69 | 10497.05 | 10699.95 | 391.09 | 11091.04 |
| - Share capital and reserves | | | 41815.02 | | | 36046.12 |
| - Unallocable liabilities | | | 10451.34 | | | 11428.95 |
| Total liabilities | | | 62763.41 | | | 58566.11 |
| | For the year ended March 31, 2007 | | | For the year ended March 31, 2006 | | |
| c) Capital expenditure including capital work in progress | 1711.00 | 163.12 | 1874.12 | 1978.51 | 154.38 | 2132.89 |
| d) Depreciation | 1828.25 | 78.33 | 1906.58 | 1771.18 | 66.02 | 1837.20 |
| e) Non cash expenditure other than depreciation | 216.26 | 52.55 | 268.81 | 295.95 | 114.80 | 410.75 |

Segment accounting policies:

In addition to the significant accounting policies applicable to the business segments as set out in Note 1 in Schedule 16, the accounting policies in relation to segment accounting are as under:

a) Segment revenue and expenses:

Segment revenue and expenses only include items directly attributable to the segment. They do not include investment income, interest income from inter-corporate deposits and loans given, dividend income, profit or loss on sale of investments, provision for diminution in value of investments, interest expense (excluding those relatable to segments) and bill discounting charges, donations and provision for taxation (current, deferred and fringe benefit tax). Since the corporate office of the Company primarily caters to the cigarette and tobacco products segment, its expenses have been considered to be attributable to the same.

b) Segment assets and liabilities:

All segment assets and liabilities are directly attributable to the segment.

Segment assets include all operating assets used by the segment and consist principally of net fixed assets, inventories, sundry debtors, loans and advances and operating cash and bank balances. Segment liabilities include all operating liabilities and consist principally of creditors and accrued liabilities. Segment assets and liabilities do not include investments, inter-corporate deposits and loans given, bank balances for unclaimed dividend and fixed deposits interest, real estate stock, share capital, reserves and surplus, loan funds, dividends payable and income-tax (current, deferred and fringe benefit tax).

GODFREY PHILLIPS INDIA LIMITED

SCHEDULE 16 Notes to the accounts (contd.)

| | For the year ended 31.3.2007 | For the year ended 31.3.2006 |
|--|------------------------------|------------------------------|
| 13. Earnings per share has been computed as under: | | |
| (a) Net profit as per profit and loss account (Rs. lacs) | 8810.42 | 6012.96 |
| (b) Weighted average number of equity shares outstanding | 1,03,98,784 | 1,03,98,784 |
| (c) Basic and diluted earnings per share - Rupees (face value of share - Rs.10 each) | 84.73 | 57.82 |
| 14. Exceptional items comprise of : | | <u>Rupees in lacs</u> |
| a) Provision for luxury taxes on cigarettes and interest thereon reversed pursuant to orders passed by the tax authorities based on the Supreme Court judgement in January, 2005 | 240.59 | 4303.43 |
| b) Additional purchase consideration to small scale cigarette manufacturing units in Assam in view of the Supreme Court judgement in September, 2005 | - | (6171.78) |
| c) Write back of amount provided as doubtful of recovery in earlier years in respect of dues recoverable from manufacturing units referred to in (b) above | - | 2732.65 |
| | <u>240.59</u> | <u>864.30</u> |

GODFREY PHILLIPS
—INDIA LIMITED—

GODFREY PHILLIPS INDIA LIMITED

SCHEDULE 16 Notes to the accounts (contd.)

15. ADDITIONAL INFORMATION PURSUANT TO THE PROVISIONS OF PARAGRAPHS 3,4C AND 4D OF PART II OF SCHEDULE VI OF THE COMPANIES ACT, 1956.

| | | | For the year ended 31.3.2007 | | For the year ended 31.3.2006 |
|--|------|------|------------------------------------|------|------------------------------------|
| | Unit | Qty. | Rs. in lacs | Qty. | Rs. in lacs |

I. Class of Goods, Capacity and Production

Class of goods manufactured
- Cigarettes

Capacity (per annum)

- Licensed
- Installed (on a single shift basis)

Production

Cigarettes manufactured by the subsidiary
company on behalf of the Company

*including 25% admissible production over licensed capacity

Installed capacity has been certified by a
director but has not been verified by the
auditors as this is a technical matter.

II. Turnover and stocks

a) Particulars of sales (gross)*

- Cigarettes
- Unmanufactured tobacco
- Cigars
- Other goods

b) Details of stock-in-trade

i) Opening stocks

- Cigarettes
- Cigars
- Real estate
- Other goods

ii) Closing stocks

- Cigarettes
- Cigars
- Real estate
- Other goods

* includes sales to a subsidiary Rs. 0.08 lac (previous year Rs. 0.46 lac) and excludes samples, write-offs, etc.

III. Raw and packing materials consumed

Unmanufactured tobacco
Cigarette paper
Cardboard (shells, slides and others)
Filter rods
Aluminium foil/Metallised paper
Cellulose paper
Miscellaneous

Tonne
Bobbin
Tonne
Million
Million Meter
Tonne

14530
139604
4739
1492
185
326
2077.74
18997.06

9214.42
617.49
3945.48
1582.36
993.39
566.18
1675.91
16741.55

12604
132893
4300
1430
179
305
1675.91
16741.55

GODFREY PHILLIPS INDIA LIMITED

SCHEDULE 16 Notes to the accounts (contd.)

| | | | For the year ended 31.3.2007 | | For the year ended 31.3.2006 |
|--|------|------|------------------------------------|------|------------------------------------|
| | Unit | Qty. | Rs. in lacs | Qty. | Rs. in lacs |

IV. Purchases for resale

Unmanufactured tobacco

Cigarettes

Cigars

Other goods-Tea, etc. (including packing
materials and processing charges)

V. Value of imported and indigenous raw and packing materials and spare parts

(A) Raw and packing materials

i) Imported

ii) Indigenous

VI. Earnings in foreign exchange

a) Export of goods on F.O.B. basis

b) Others including freight, etc.

VII. Value of imports on C.I.F. basis (including those in transit)

i) Raw materials

ii) Components and spare parts

iii) Capital goods

iv) Purchases for resale - cigars, etc.

VIII. Expenditure in foreign currencies

Fees for technical services (net of tax)

Professional/consultancy fees (net of tax)

Interest (net of tax)

Others

IX. Dividends remittance to non-resident shareholders in foreign currency

Amount of dividends

Number of non-resident shareholders to whom remittances made

Number of shares on which remittances made

Year for which dividends remitted (year ended)

GODFREY PHILLIPS INDIA LIMITED

SCHEDULE 16 Notes to the accounts (contd.)

16. Foreign currency exposures that are not hedged by derivative instruments or otherwise are as follows:

| Particulars | As at 31.3.2007 | | As at 31.3.2006 | |
|------------------------------------|---|-------------------------------------|--|--|
| | Amount in foreign currency (Lacs) | Amount in Rs. Lacs | Amount in foreign currency (Lacs) | Amount in Rs. Lacs |
| Loan Funds | 75.00 USD | 3270.00 | 100.00 USD | 4478.00 |
| Sundry debtors | 29.95 USD 0.66 EURO | 1287.55 37.74 | 22.16 USD 0.18 EURO | 983.81 9.49 |
| Current liabilities and provisions | 3.64 USD 1.88 EURO - - 0.24 GBP | 158.70 109.68 - - 20.61 | 1.49 USD 1.85 EURO 82.83 YEN 0.24 HKD 0.01 GBP | 66.76 100.25 34.47 1.40 0.37 |

17. Excise duty related to sales has been shown as deduction from gross sales and that related to the difference between the closing stock and opening stock has been disclosed as "Increase/(decrease) in excise duty on finished goods", on the face of the profit and loss account.

18. The figures for the previous year have been re-cast, wherever necessary to conform to the current year's classification.

L.K. MODI
Executive Director

S.V. SHANBHAG
Whole-time Director

R.N. AGARWAL
Executive Vice President (Finance)

Mumbai: 20th June, 2007

S. SERU
Chief Executive (Domestic)

R. JOSHI
Company Secretary

R.A. SHAH
Chairman

C.M. MANIAR
LALIT BHASIN
O.P. VAISH
ANUP N.KOTHARI

For and on behalf of the Board of Directors

Directors

GODFREY PHILLIPS INDIA LIMITED

Additional Information as required under Part IV of Schedule VI to the Companies Act, 1956.
Balance Sheet Abstract and Company's General Business Profile:

| I Registration Details | |
|--|-------------------------------|
| Registration Number | 8587 |
| State Code | 11 |
| Balance Sheet Date | 31.3.2007 |
| II. Capital Raised During the Year (Amount in Rs. Thousands) | |
| Public Issue | Nil |
| Rights Issue | Nil |
| Bonus Issue | Nil |
| Private Placement | Nil |
| III. Position of Mobilisation and Deployment of Funds (Amount in Rs. Thousands) | |
| Total Liabilities | 6276341 |
| Total Assets | 6276341 |
| Source of Funds: | |
| Paid-up Capital | 103988 |
| Reserves and Surplus | 4077514 |
| Secured Loans | 607335 |
| Unsecured Loans | Nil |
| Applications of Funds: | |
| Net Fixed Assets | 1265486 |
| Investments | 2462657 |
| Net Current Assets | 1060694 |
| Misc. Expenditure | Nil |
| Accumulated Losses | Nil |
| IV. Performance of the Company (Amount in Rs. Thousands) | |
| Turnover | 16327723 |
| Total Expenditure | 14975435 |
| Profit/(Loss) Before Tax | 1352288 |
| Profit/(Loss) After Tax | 881042 |
| Earning Per Share (Rs.) | 84.73 |
| Dividend Rate (%) | 250 |
| V. Generic Names of Three Principal Products/Services of the Company (as per monetary terms) | |
| Item Code No.(ITC Code) | 2402.20 |
| Product Description | Cigarettes containing tobacco |
| Item Code No. (ITC Code) | 902.30 |
| Product Description | Tea black in packets |
| Item Code No. (ITC Code) | 2401.20 |
| Product Description | Unmanufactured tobacco |

For and on behalf of the Board of Directors

L.K. MODI
Executive Director

S.V. SHANBHAG
Whole-time Director

R.N. AGARWAL
Executive Vice President (Finance)

Mumbai: 20th June, 2007

S. SERU
Chief Executive (Domestic)

R. JOSHI
Company Secretary

R.A. SHAH
Chairman

C.M. MANIAR
LALIT BHASIN
O.P. VAISH
ANUP N.KOTHARI

Directors

GODFREY PHILLIPS INDIA LIMITED

Statement pursuant to Section 212 of the Companies Act, 1956

A. Holding Company's interest in the subsidiaries at the close of the respective financial years.

| Name of the Subsidiary | Financial Year ended | Extent of interest |
|--|----------------------|---|
| 1. International Tobacco Company Limited | 31.3.2007 | The entire issued share capital of 100000 Equity Shares of Rs. 100 each fully paid. |
| 2. Chase Investments Limited | 31.3.2007 | The entire issued share capital of 198500 Equity Shares of Rs. 100 each of which 40010 are fully paid up and 158490 are Rs. 50 paid up. |
| 3. City Leasing and Finance Company Limited | 31.3.2007 | The entire issued share capital of 1950000 Equity Shares of Rs. 10 each of which 400020 are fully paid up and 1549980 are Rs. 5.50 paid up. |
| 4. Manhattan Credits and Finance Limited | 31.3.2007 | The entire issued share capital of 1950000 Equity Shares of Rs. 10 each fully paid. |
| 5. Kashyap Metal and Allied Industries Limited | 31.3.2007 | Nil (It is a subsidiary under Section 4(3) (b)(ii) of the Companies Act, 1956.) |
| 6. Unique Space Developers Limited | 31.3.2007 | Nil (It is a subsidiary under Section 4(3) (b)(ii) of the Companies Act, 1956.) |

B. Net aggregate amount of profits/(losses) of the subsidiaries not dealt with in the Holding Company's accounts.

| Name of the Subsidiary | For Financial Year ended 31.3.2007 Rs. in lacs | For Previous Financial Years Rs. in lacs |
|--|---|---|
| 1. International Tobacco Company Limited | 97.23 | 744.15 |
| 2. Chase Investments Limited | 13.52 | 173.19 |
| 3. City Leasing and Finance Company Limited | 10.78 | 92.74 |
| 4. Manhattan Credits and Finance Limited | 9.90 | 18.74 |
| 5. Kashyap Metal and Allied Industries Limited | Not Applicable | Not Applicable |
| 6. Unique Space Developers Limited | Not Applicable | Not Applicable |

C. Net aggregate amount of profits/(losses) of the subsidiaries dealt with in the Holding Company's accounts, being the dividend received.

| Name of the Subsidiary | For Financial Year ended 31.3.2007 Rs. in lacs | For Previous Financial Years Rs. in lacs |
|--|---|---|
| 1. International Tobacco Company Limited | Nil | Nil |
| 2. Chase Investments Limited | Nil | 8.16 |
| 3. City Leasing and Finance Company Limited | Nil | 8.29 |
| 4. Manhattan Credits and Finance Limited | Nil | 7.20 |
| 5. Kashyap Metal and Allied Industries Limited | Not Applicable | Not Applicable |
| 6. Unique Space Developers Limited | Not Applicable | Not Applicable |

For and on behalf of the Board of Directors

L.K. MODI
Executive Director

S. SERU
Chief Executive (Domestic)

R.A. SHAH
Chairman

S.V. SHANBHAG
Whole-time Director

C.M. MANIAR
LALIT BHASIN
O.P. VAISH
ANUP N.KOTHARI

Directors

R.N. AGARWAL
Executive Vice President (Finance)

R. JOSHI
Company Secretary

Mumbai: 20th June, 2007

GODFREY PHILLIPS INDIA LIMITED

CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF THE AUDITORS TO THE BOARD OF DIRECTORS OF GODFREY PHILLIPS INDIA LIMITED ON THE CONSOLIDATED FINANCIAL STATEMENTS OF GODFREY PHILLIPS INDIA LIMITED, ITS SUBSIDIARIES AND AN ASSOCIATE.

We have examined the attached consolidated balance sheet of Godfrey Phillips India Limited, its subsidiaries and an associate (the Group), as at March 31, 2007 and also the consolidated profit and loss account and the cash flow statement for the year ended on that date annexed thereto. These financial statements are the responsibility of Godfrey Phillips India Limited's management. Our responsibility is to express an opinion on these financial statements based on our audit.

1. We conducted our audit in accordance with generally accepted auditing standards in India. These Standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are prepared, in all material respects, in accordance with an identified financial reporting framework and are free of material misstatements. An audit includes, examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

2. We did not audit the financial statements of subsidiaries viz., Chase Investments Limited, City Leasing and Finance Company Limited, Manhattan Credits and Finance Limited, Kashyap Metal and Allied Industries Limited and Unique Space Developers Limited whose financial statements reflect total assets of Rs. 2651.36 lacs as at March 31, 2007 and total revenues of Rs. 115.68 lacs for the year ended on that date (these figures include intragroup balances and intragroup transactions eliminated on consolidation) and an associate viz. Success Principles India Limited whose financial statements reflect the Group's share of profit upto March 31, 2007 of Rs. 32.77 lacs and the Group's share of profit of Rs. 2.12 lacs for the year ended on that date as considered in the consolidated financial statements. These financial statements have been audited by other auditors whose reports have been furnished to us, and our opinion, in so far as it relates to the amounts included in respect of the subsidiaries and an associate is based solely on the report of the other auditors.

3. We report that the consolidated financial statements have been prepared by the Company in accordance with the requirements of Accounting Standard 21, Consolidated Financial Statements and Accounting Standard 23, Accounting for Investments in Associates in Consolidated Financial Statements, issued by the Institute of Chartered Accountants of India and on the basis of the separate audited financial statements of Godfrey Phillips India Limited, its subsidiaries and an associate included in the consolidated financial statements.

4. On the basis of the information and explanations given to us and on the consideration of the separate audit reports on individual audited financial statements of Godfrey Phillips India Limited, its subsidiaries, and an associate, in our opinion, the consolidated

financial statements give a true and fair view in conformity with the accounting principles generally accepted in India:

- in the case of the consolidated balance sheet of the consolidated state of affairs of Godfrey Phillips India Limited, its subsidiaries and an associate as at March 31, 2007;
- in the case of the consolidated profit and loss account of the consolidated results of operations of Godfrey Phillips India Limited, its subsidiaries and an associate for the year ended on that date; and
- in the case of the consolidated cash flow statement, of the consolidated cash flows of Godfrey Phillips India Limited, its subsidiaries and an associate for the year ended on that date.

For A.F. FERGUSON & CO.
Chartered Accountants

J.M. SETH
Partner
(Membership No. 17055)

New Delhi : 20th June, 2007

GODFREY PHILLIPS INDIA LIMITED

Consolidated balance sheet as at March 31, 2007

| | Schedule Number | | As at 31.3.2007 | As at 31.3.2006 | Rupees in lacs |
|--|-----------------|--|-----------------|-----------------|----------------|
| SOURCES OF FUNDS | | | | | |
| Shareholders' funds | | | | | |
| Share capital | 1 | | 1039.88 | 1039.88 | |
| Reserves and surplus | 2 | | <u>41421.13</u> | <u>35565.60</u> | 36605.48 |
| Minority interests | | | 4.08 | | 5.17 |
| Loan funds | | | | | |
| Secured | 3 | | 6073.35 | | 7439.19 |
| Deferred tax liabilities (net) | 12 | | 446.74 | | 467.46 |
| TOTAL | | | <u>48985.18</u> | <u>44517.30</u> | |
| APPLICATION OF FUNDS | | | | | |
| Fixed assets | 4 | | | | |
| Gross block | | | 29739.31 | 28162.47 | |
| Less: Depreciation/write down | | | <u>13429.94</u> | <u>11645.12</u> | |
| Net block | | | 16309.37 | 16517.35 | |
| Capital work-in-progress and advances on capital account | | | <u>845.42</u> | <u>290.36</u> | 16807.71 |
| Investments | 5 | | 24579.21 | | 21111.64 |
| Current assets, loans and advances | | | | | |
| Income accrued on investments | | | 12.72 | 15.17 | |
| Inventories | 6 | | 15423.64 | 15277.43 | |
| Sundry debtors | 7 | | 1569.61 | 1159.66 | |
| Cash and bank balances | 8 | | 1532.31 | 685.16 | |
| Loans and advances | 9 | | <u>4089.72</u> | <u>4807.05</u> | |
| | | | 22628.00 | 21944.47 | |
| Less: | | | | | |
| Current liabilities and provisions | | | | | |
| Current liabilities | 10 | | 9746.77 | 10431.77 | |
| Provisions | 11 | | <u>5633.38</u> | <u>4914.75</u> | |
| | | | 15380.15 | 15346.52 | |
| Net current assets | | | 7247.85 | | 6597.95 |
| Miscellaneous expenses to the extent not written off or adjusted | | | 3.33 | | - |
| TOTAL | | | <u>48985.18</u> | <u>44517.30</u> | |

Notes to the consolidated accounts 16

| | | | | |
|---|--|---------------------------------------|---|-----------|
| | | | For and on behalf of the Board of Directors | |
| Per our report attached For A. F. FERGUSON & CO., Chartered Accountants | L.K. MODI Executive Director | S. SERU Chief Executive (Domestic) | R.A. SHAH Chairman | Directors |
| | S.V. SHANBHAG Whole-time Director | | C.M. MANIAR LALIT BHASIN O.P. VAISH ANUP N.KOTHARI | |
| J.M. SETH Partner (Membership No.17055) | R.N. AGARWAL Executive Vice President (Finance) | R. JOSHI Company Secretary | | |
| New Delhi: 20th June, 2007 | | | | |

GODFREY PHILLIPS INDIA LIMITED

Consolidated profit and loss account for the year ended March 31, 2007

| | Schedule Number | For the year ended 31.3.2007 | For the year ended 31.3.2006 | Rupees in lacs |
|--|-----------------|------------------------------|------------------------------|----------------|
| INCOME | | | | |
| Gross sales | | 159676.71 | 143186.72 | |
| Less: Excise duty | | <u>83528.33</u> | <u>74770.57</u> | |
| Net sales | | 76148.38 | 68416.15 | |
| Other income | 13 | <u>3166.61</u> | <u>1559.13</u> | |
| | | 79314.99 | 69975.28 | |
| EXPENSES | | | | |
| Raw and packing materials, manufactured and other goods | 14 | 27950.52 | 22375.72 | |
| Manufacturing and other expenses | 15 | 36840.51 | 35025.31 | |
| Depreciation | 4 | 2162.78 | 2052.89 | |
| Increase/(decrease) in excise duty on finished goods | | <u>(1,105.51)</u> | <u>1,405.31</u> | |
| | | 65848.30 | 60859.23 | |
| Profit before taxation and exceptional items | | 13466.68 | 9116.05 | |
| Exceptional items - Refer note 13 | | <u>240.59</u> | <u>864.30</u> | |
| Profit before taxation | | 13707.27 | 9980.35 | |
| Provision for taxation - current | | 4132.50 | 1313.55 | |
| - deferred tax | | <u>(20.72)</u> | <u>2013.38</u> | |
| - fringe benefit tax | | 701.65 | 677.81 | |
| Profit after taxation before share of results of an associate and minority interests | | 8893.84 | 5975.61 | |
| Share of net profit of an associate | | <u>2.12</u> | <u>2.28</u> | |
| Profit after taxation before minority interests | | 8895.96 | 5977.89 | |
| Minority interests | | <u>(1.09)</u> | <u>(1.26)</u> | |
| Net profit | | 8897.05 | 5979.15 | |
| Balance brought forward from previous year | | <u>23567.42</u> | <u>21656.14</u> | |
| Available for appropriation | | 32464.47 | 27635.29 | |
| APPROPRIATIONS | | | | |
| Proposed dividend | | 2599.70 | 2339.72 | |
| Corporate dividend tax | | 441.82 | 328.15 | |
| Transferred to general reserve | | 1500.00 | 1400.00 | |
| Surplus carried to consolidated balance sheet | | <u>27922.95</u> | <u>23567.42</u> | |
| | | 32464.47 | 27635.29 | |
| Basic and diluted earnings per share (Face value of share - Rs. 10 each) | | Rs.85.56 | Rs.57.50 | |
| Notes to the consolidated accounts | 16 | | | |

For and on behalf of the Board of Directors

| | | | | |
|--|--|---------------------------------------|---|-----------|
| Per our report attached to the consolidated balance sheet For A. F. FERGUSON & CO., Chartered Accountants | L.K. MODI Executive Director | S. SERU Chief Executive (Domestic) | R.A. SHAH Chairman | Directors |
| | S.V. SHANBHAG Whole-time Director | | C.M. MANIAR LALIT BHASIN O.P. VAISH ANUP N.KOTHARI | |
| J.M. SETH Partner (Membership No.17055) | R.N. AGARWAL Executive Vice President (Finance) | R. JOSHI Company Secretary | | |
| New Delhi: 20th June, 2007 | | | | |

GODFREY PHILLIPS INDIA LIMITED

Consolidated cash flow statement for the year ended March 31, 2007

| | For the year ended 31.3.2007 | Rupees in lacs | For the year ended 31.3.2006 |
|---|---------------------------------|------------------|---------------------------------|
| A. CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Net profit before tax | 13707.27 | | 9980.35 |
| Adjustments for: | | | |
| Depreciation | 2162.78 | | 2052.89 |
| Interest income from debts, deposits, loans, etc. | (133.98) | | (235.64) |
| Dividends from other long term investments | (38.61) | | (36.03) |
| Interest income from other long term investments | (25.91) | | (25.91) |
| Profit on redemption/sale of other long term investments | (1913.26) | | (261.91) |
| Profit on sale of other current investments | (344.40) | | (273.10) |
| Exchange gain | (0.29) | | (0.46) |
| Exchange loss/(gain) on foreign currency borrowings | (11.11) | | 23.70 |
| Provision for wealth - tax | 17.00 | | 15.00 |
| Interest expense - fixed loans | 272.77 | | 219.41 |
| - others | 19.67 | | 58.89 |
| Fixed assets written off/written down | 81.75 | | 103.43 |
| Loss on sale of fixed assets | 51.72 | | 37.88 |
| Provision made for diminution in the value of other long term investments | 0.34 | | 35.95 |
| | <u>138.47</u> | | <u>1,714.10</u> |
| Operating profit before working capital changes | <u>13,845.74</u> | | <u>11,694.45</u> |
| Adjustments for: | | | |
| Trade and other receivables | 491.68 | | (739.32) |
| Inventories | (146.21) | | (2,285.32) |
| Trade and other payables | (440.36) | | (1,823.14) |
| | <u>(94.89)</u> | | <u>(4,847.78)</u> |
| Cash generated from operations | <u>13750.85</u> | | <u>6846.67</u> |
| Interest received | 52.12 | | 157.06 |
| Dividends received | 7.60 | | 5.78 |
| Purchase of investments* | (160.02) | (599.49) | (16.88) |
| Proceeds from sale of investments* | <u>247.64</u> | <u>582.61</u> | <u>(2,358.31)</u> |
| Direct taxes paid | (4,784.22) | | (2,212.35) |
| | <u>(4,636.88)</u> | | <u>4634.32</u> |
| Net cash from operating activities | <u>9113.97</u> | | |
| B. CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchase of fixed assets | (2,881.36) | | (2,419.13) |
| Proceeds from sale of fixed assets | 208.34 | | 109.73 |
| Purchase of investments | (108,818.01) | (76,188.43) | (719.82) |
| Proceeds from sale of investments | <u>107,522.26</u> | <u>75,468.61</u> | <u>27.86</u> |
| Dividends from long term other investments | 33.46 | | 25.91 |
| Interest received from other long term investments | 25.91 | | (200.00) |
| Deposits made | (350.00) | | 400.00 |
| Loans/Deposits received back | 200.00 | | 73.10 |
| Interest received | 81.16 | | (2,702.35) |
| Net cash used in investing activities | <u>(3,978.24)</u> | | |
| C. CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Repayment of fixed deposits | - | | (181.19) |
| Repayment of long term borrowings | (1,167.20) | | (107.72) |
| Proceeds working capital borrowings | (157.84) | | 1431.97 |
| Interest paid | (302.02) | | (337.27) |
| Dividend paid | (2,333.66) | | (2,278.92) |
| Corporate dividend tax paid | (328.15) | | (320.85) |
| Net cash used in financing activities | <u>(4,288.87)</u> | | <u>(1,793.98)</u> |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | | | |
| | 846.86 | | 137.99 |
| Opening cash and cash equivalents | | | |
| -Cash and bank balances | 685.16 | | 546.71 |
| Closing cash and cash equivalents | | | |
| - Cash and bank balances | 1,532.31 | | 685.16 |
| - Effect of exchange rate changes on foreign currency bank balance | (0.29) | | (0.46) |
| | <u>1,532.02</u> | | <u>684.70</u> |

*By the subsidiary companies engaged in the business of investments

Per our report attached to the consolidated balance sheet For A. F. FERGUSON & CO., Chartered Accountants

L.K. MODI
Executive Director

S.V. SHANBHAG
Whole-time Director

J.M. SETH
Partner
(Membership No.17055)

R.N. AGARWAL
Executive Vice President (Finance)

New Delhi: 20th June, 2007

S. SERU
Chief Executive (Domestic)

R. JOSHI
Company Secretary

For and on behalf of the Board of Directors

R.A. SHAH
Chairman

C.M. MANIAR
LALIT BHASIN
O.P. VAISH
ANUP N.KOTHARI

Directors

GODFREY PHILLIPS INDIA LIMITED

Schedules 1 to 16 annexed to and forming part of the consolidated accounts for the year ended March 31, 2007

| | As at 31.3.2007 | Rupees in lacs | As at 31.3.2006 |
|--|--------------------|----------------|--------------------|
| SCHEDULE 1 -Share capital | | | |
| AUTHORISED | | | |
| 60,000 Preference shares of Rs. 100 each | 60.00 | | 60.00 |
| 2,44,00,000 Equity shares of Rs. 10 each | <u>2440.00</u> | | <u>2440.00</u> |
| | <u>2500.00</u> | | <u>2500.00</u> |
| ISSUED, SUBSCRIBED AND PAID UP | | | |
| 1,03,98,784 Equity shares of Rs. 10 each fully paid up | <u>1039.88</u> | | <u>1039.88</u> |
| Of the above equity shares | | | |
| (i) 86,82,578 shares were allotted as fully paid up as bonus shares by capitalisation of general reserves Rs. 311.57 lacs, share premium account Rs. 36.75 lacs and profits Rs. 519.94 lacs. | | | |
| (ii) 83,490 shares were allotted as fully paid up to the shareholders of D. Macropolo & Company Limited on amalgamation. | | | |
| SCHEDULE 2 - Reserves and surplus | | | |
| REVALUATION RESERVE | | | |
| At commencement of the year | 236.16 | | 236.16 |
| CAPITAL REDEMPTION RESERVE | | | |
| At commencement of the year | 30.13 | | 30.13 |
| GENERAL RESERVE | | | |
| At commencement of the year | 11731.89 | | 10331.89 |
| Add: Amount transferred from profit and loss account | <u>1500.00</u> | 13231.89 | <u>1400.00</u> |
| | | | 11731.89 |
| PROFIT AND LOSS ACCOUNT | <u>27922.95</u> | | <u>23567.42</u> |
| | <u>41421.13</u> | | <u>35565.60</u> |

GODFREY PHILLIPS INDIA LIMITED

| | Rupees in lacs | |
|---|--------------------|--------------------|
| | As at 31.3.2007 | As at 31.3.2006 |
| SCHEDULE 3- Loan funds | | |
| SECURED | | |
| From banks: | | |
| - Term loan secured by way of an exclusive charge over specific plant and machinery (payable within 12 months Rs. 1090.00 lacs; previous year Rs. 1119.50 lacs) | 3270.00 | 4478.00 |
| - Cash credit and working capital demand loan secured against hypothecation of stocks and book debts and second charge on certain immovable properties of the group | 2803.35 | 2961.19 |
| | <u>6073.35</u> | <u>7439.19</u> |

SCHEDULE 4 - Fixed assets

| | Rupees in lacs | | | | | | | | |
|---|-----------------------|----------------|---------------|-------------------------|--------------------|-----------------|------------------|------------------|--------------------|
| | GROSS BLOCK (AT COST) | | | DEPRECIATION/WRITE DOWN | | | NET BLOCK | | |
| | As at 31.3.2006 | Additions | Deductions | As at 31.3.2007 | As at 31.3.2006 | For the year | On deductions | Write down*** | As at 31.3.2007 |
| | | | | | | | | | As at 31.3.2007 |
| | | | | | | | | | As at 31.3.2006 |
| Goodwill | 166.69* | - | - | 166.69* | - | - | - | - | 166.69 |
| Patents and trade marks | 0.51 | - | - | 0.51 | - | - | - | - | 0.51 |
| Land (leasehold) | 809.14# | - | - | 809.14# | - | - | - | - | 809.14 |
| Land (freehold) | 393.43 | 316.44 | - | 709.87 | - | - | - | - | 709.87 |
| Buildings | 3389.84** | 68.29 | 11.20 | 3446.93** | 402.56 | 87.44 | 6.78 | - | 2963.71 |
| Plant and machinery | 19272.82 | 920.03 | 149.24 | 20043.61 | 9664.87 | 1684.84 | 110.14 | 21.03 | 8783.01 |
| Electrical installation and equipments | 292.50 | 234.65 | 39.34 | 487.81 | 78.16 | 17.35 | 15.04 | - | 407.34 |
| Computers and information technology equipments | 905.01 | 224.18 | 177.25 | 951.94 | 504.63 | 131.38 | 127.97 | - | 443.90 |
| Furniture, fixtures and office equipments | 1339.46 | 199.29 | 86.14 | 1452.61 | 559.66 | 81.58 | 41.07 | 4.67 | 847.77 |
| Motor vehicles | 1593.07 | 327.18 | 250.05 | 1670.20 | 435.24 | 160.19 | 102.66 | - | 1177.43 |
| Total | <u>28162.47</u> | <u>2290.06</u> | <u>713.22</u> | <u>29739.31</u> | <u>11645.12</u> | <u>2162.78</u> | <u>403.66</u> | <u>25.70</u> | <u>16309.37</u> |
| Previous year | 24281.28 | 4203.17 | 321.98 | 28162.47 | 9677.23 | 2052.89 | 155.17 | 70.17 | 11645.12 |
| Capital work-in-progress and advances on capital account (net of write down of Rs. 6.55 lacs; previous year Rs. 14.07 lacs) | | | | | | | | | 845.42 |
| | | | | | | | | | <u>17154.79</u> |
| | | | | | | | | | <u>16807.71</u> |

- * includes Rs. 165.49 lacs on consolidation
- ** includes Rs. 0.02 lac (previous year Rs. 0.02 lac) being the cost of shares in co-operative societies and Rs. 126.90 lacs (previous year Rs. 125.90 lacs) towards cost of buildings for which titles are yet to be registered in the name of the Group.
- *** write down of certain items identified for disposal to their expected realisable value.
- # includes Rs. 448.89 lacs (previous year Rs. 448.89 lacs) in respect of lands, titles for which are yet to be registered in the name of the Group.
1. Estimated amount of contracts remaining to be executed on capital account and not provided for (net of capital advances) Rs. 3097.59 lacs (previous year Rs. 68.71 lacs).
2. Additions for the year includes exchange gain (net) of Rs. 37.16 lacs (previous year- net of exchange loss (net) of Rs. 53.00 lacs) on account of fluctuations in the rate of exchange including increase/ decrease in rupee liability of long term foreign currency loan.
3. Additions for the year include Rs. Nil (previous year Rs. 31.12 lacs) towards the amount of borrowing costs capitalised.

GODFREY PHILLIPS INDIA LIMITED

| | Rupees in lacs | |
|---|----------------------|----------------------|
| | As at 31.3.2007 | As at 31.3.2006 |
| SCHEDULE 5- Investments | | |
| LONG TERM (At cost) | | |
| TRADE INVESTMENT - UNQUOTED | | |
| Molind Engineering Limited 3,500 Equity Shares of Rs. 10 each fully paid up | 0.25 | 0.25 |
| OTHER INVESTMENTS - QUOTED | | |
| Unit Trust of India 3,83,900 6.75% Tax Free US64 Bonds of Rs. 100 each | 383.90 | 383.90 |
| Nestle India Limited 93 Equity Shares of Rs. 10 each fully paid up | 0.07 | 0.07 |
| Smithkline Beecham Consumer Healthcare Limited 320 Equity Shares of Rs. 10 each fully paid up | 0.38 | 0.38 |
| GTC Industries Limited 100 Equity Shares of Rs. 10 each fully paid up | 0.01 | 0.01 |
| VST Industries Limited 100 Equity Shares of Rs. 10 each fully paid up | 0.11 | 0.11 |
| Hindustan Lever Limited 290 Equity Shares of Re. 1 each fully paid up | 0.07 | 0.07 |
| HDFC Bank Limited 15,000 Equity Shares of Rs. 10 each fully paid up | 1.50 | 1.50 |
| Oriental Bank of Commerce 1,000 (Previous year 2,000) Equity shares of Rs. 10 each fully paid up | 0.60 | 1.20 |
| Bank of Baroda 17,088 (Previous year 22,588) Equity Shares of Rs. 10 each fully paid up | 37.85 | 50.50 |
| State Bank of Travancore 1,405 Equity Shares of Rs. 100 each fully paid up | 8.43 | 8.43 |
| Bank of India 10,000 Equity Shares of Rs. 10 each fully paid up | 13.14 | 13.14 |
| Corporation Bank 7,000 Equity Shares of Rs. 10 each fully paid up | 26.88 | 26.88 |
| Punjab Communications Limited 3,700 Equity Shares of Rs. 10 each fully paid up Less: Provision for diminution in the value of investment | 9.25 <u>8.08</u> | 9.25 <u>7.75</u> |
| Narang Industries Limited 40,000 Equity Shares of Rs. 10 each fully paid up | 4.00 | 4.00 |
| Circassia Pacific Finance Limited 1,00,000 Equity Shares of Rs. 10 each fully paid up Less: Provision for diminution in the value of investment | 10.00 <u>2.25</u> | 10.00 <u>2.25</u> |
| Biocon Limited 200 Equity Shares of Rs. 5 each fully paid up | 0.63 | 0.63 |
| Maruti Udyog Limited 950 Equity Shares of Rs. 5 each fully paid up | 1.19 | 1.19 |
| Dena Bank 9,104 Equity Shares of Rs. 10 each fully paid up | 2.45 | 2.45 |
| Emami Limited 2,200 Equity Shares of Rs. 2 each fully paid up | 1.54 | 1.54 |

GODFREY PHILLIPS INDIA LIMITED

| | Rupees in lacs | |
|--|-------------------|--------------------|
| | As a 31.3.2007 | As at 31.3.2006 |
| SCHEDULE 5- Investments (continued) | | |
| NTPC Limited 12,393 (Previous year 8,547) Equity Shares of Rs. 10 each fully paid up | 13.34 | 8.28 |
| Punjab National Bank 376 Equity Shares of Rs. 10 each fully paid up | 1.46 | 1.46 |
| Reliance Industries Limited 1,510 Equity Shares of Rs. 10 each fully paid up | 13.53 | 13.53 |
| Tata Consultancy Services Limited 775 (Previous year 165) Equity Shares of Re. 1 each fully paid up | 6.94 | 1.41 |
| Glenmark Pharmaceutical Limited 2,000 Equity Shares of Rs. 2 each fully paid up | 6.10 | 6.10 |
| Allahabad Bank 2,132 (Previous year 4,264) Equity Shares of Rs. 10 each fully paid up | 1.75 | 3.50 |
| ABG Shipyad Limited 111 Equity Shares of Rs. 10 each fully paid up | 0.21 | 0.21 |
| AIA Engineering Limited 80 Equity Shares of Rs. 10 each fully paid up | 0.25 | 0.25 |
| Ashok Leyland Limited 7,500 Equity Shares of Re. 1 each fully paid up | 2.05 | 2.05 |
| HT Media Limited 3,472 (Previous year 2,604) Equity Shares of Rs. 2 (Previous year Rs. 10) each fully paid up (Face value sub-divided during the year) | 3.68 | 13.80 |
| Andhra Bank 6,986 Equity Shares of Rs. 10 each fully paid up | 6.29 | 6.29 |
| Bombay Rayon Fashions Limited 2,400 (Previous year 1,400) Equity Shares of Rs. 10 each fully paid up | 2.86 | 0.98 |
| ICICI Bank Limited 1,000 (Previous year 2,000) Equity Shares of Rs. 10 each fully paid up | 5.25 | 10.50 |
| Zee Telefilms Limited 500 Equity Shares of Re. 1 each fully paid up | 0.82 | 0.82 |
| Prithvi Information Solutions Limited 336 Equity Shares of Rs. 10 each fully paid up | 0.90 | 0.90 |
| Punj Lloyd Limited 69 Equity Shares of Rs. 10 each fully paid up | 0.48 | 0.48 |
| Triveni Engineering & Industries Limited 21,050 (Previous year 31,575) Equity Shares of Re. 1 each fully paid up | 10.10 | 15.15 |
| Suzlon Energy Limited 487 Equity Shares of Rs. 10 each fully paid up | 2.47 | 2.47 |
| Talbro's Automotive Components Limited 1,551 Equity Shares of Rs. 10 each fully paid up | 1.59 | 1.59 |
| Infrastructure Development Finance Company Limited 1,564 (Previous year 2,346) Equity Shares of Rs. 10 each fully paid up | 0.54 | 0.81 |
| Shopper's Stop Limited 94 (Previous year 161) Equity Shares of Rs. 10 each fully paid up | 0.22 | 0.38 |
| Chennai Petroleum Corporation Limited 400 Equity Shares of Rs. 10 each fully paid up | 0.96 | 0.96 |
| Dabur India Limited 3,000 (Previous year 2,000) Equity Shares of Re. 1 each fully paid up | 2.11 | 2.11 |
| GIC Housing & Finance Company Limited Nil (Previous year 2,000) Equity Shares of Rs. 10 each fully paid up | - | 0.84 |

GODFREY PHILLIPS INDIA LIMITED

| | Rupees in lacs | |
|--|--------------------|--------------------|
| | As at 31.3.2007 | As at 31.3.2006 |
| SCHEDULE 5- Investments (continued) | | |
| Gitanjali Gems Limited 353 Equity Shares of Rs. 10 each fully paid up | 0.69 | 0.69 |
| Gujarat Alkalies & Chemicals Limited Nil (Previous year 1,500) Equity Shares of Rs. 10 each fully paid up | - | 1.99 |
| Gujarat State Petronet Limited 676 Equity Shares of Rs. 10 each fully paid up | 0.18 | 0.18 |
| GVK Power and Infrastructure Limited 93 Equity Shares of Rs. 10 each fully paid up | 0.29 | 0.29 |
| HCL Technologies Limited 400 Equity Shares of Rs. 2 each fully paid up | 1.05 | 1.05 |
| IFCI Limited 25,000 Equity Shares of Rs. 10 each fully paid up | 4.26 | 4.26 |
| IL&FS Investsmart Limited 76 Equity Shares of Rs. 10 each fully paid up | 0.10 | 0.10 |
| Jaiprakash Hydro Power Limited 9,725 (Previous year 9,800) Equity Shares of Rs. 10 each fully paid up | 3.11 | 3.14 |
| SRF Limited 2,500 Equity Shares of Rs. 10 each fully paid up | 7.28 | 7.28 |
| State Bank of India 1,000 Equity Shares of Rs. 10 each fully paid up | 8.76 | 8.76 |
| Tata Chemicals Limited 1,500 Equity Shares of Rs. 10 each fully paid up | 3.74 | 3.74 |
| Tulip IT Services Limited 174 Equity Shares of Rs. 10 each fully paid up | 0.21 | 0.21 |
| Union Bank of India 913 Equity Shares of Rs. 10 each fully paid up | 1.00 | 1.00 |
| Usha Martin Limited 1,500 Equity Shares of Rs. 5 each fully paid up | 2.76 | 2.76 |
| Yes Bank Limited 5,000 (Previous year 2,500) Equity Shares of Rs. 10 each fully paid up | 4.61 | 2.03 |
| Inox Leisure Limited 90 Equity Shares of Rs. 10 each fully paid up | 0.11 | 0.11 |
| Plethico Pharmaceuticals Limited 116 Equity Shares of Rs. 10 each fully paid up | 0.35 | - |
| Kewal Kiran Clothing Limited 307 Equity Shares of Rs. 10 each fully paid up | 0.80 | - |
| Cairn India Limited 26,250 Equity Shares of Rs. 10 each fully paid up | 42.00 | - |
| Lanco Infratech Limited 17,729 Equity Shares of Rs. 10 each fully paid up | 42.55 | - |
| Reliance Petroleum Limited 1,260 Equity Shares of Rs. 10 each fully paid up | 0.76 | - |
| Parsvnath Developers Limited 561 Equity Shares of Rs. 10 each fully paid up | 1.68 | - |

GODFREY PHILLIPS INDIA LIMITED

| | Rupees in lacs | |
|---|---|---|
| | As at 31.3.2007 | As at 31.3.2006 |
| SCHEDULE 5- Investments (continued) | | |
| Power Finance Corporation 997 Equity Shares of Rs. 10 each fully paid up | 0.85 | - |
| Idea Cellular Limited 2,137 Equity Shares of Rs. 10 each fully paid up | 1.60 | - |
| Indian Bank Limited 2,096 Equity Shares of Rs. 10 each fully paid up | 1.91 | - |
| Technocraft Industries India Limited 2,350 Equity Shares of Rs. 10 each fully paid up | 2.47 | - |
| Reliance Communication Ventures Limited 1,510 Equity Shares of Rs. 5 each fully paid up | .* | .* |
| Reliance Capital Limited 75 (Previous year Nil) Equity Shares of Rs. 10 each fully paid up | .* | - |
| Reliance Energy Limited 113 (Previous year Nil) Equity Shares of Rs. 10 each fully paid up | .* | - |
| Reliance Natural Resources Limited 1,510 Equity Shares of Rs. 5 each fully paid up | .* | .* |
| *Acquired without cost under the scheme of mergers/ demergers in Reliance group of companies | | |
| OTHER INVESTMENTS - UNQUOTED | | |
| Associate: Success Principles India Limited 1,99,673 Equity Shares of Rs. 10 each fully paid up Cost of acquisition (net of capital reserve of Rs. 1.67 lacs) Add: Group's share of profit upto year end | 19.97 52.74 <u>32.77</u> | 19.97 <u>30.65</u> 50.62 |
| Others: | | |
| Investment in Kotak - 2010 Opportunities Portfolio, a portfolio management scheme managed by Kotak Securities Limited | 50.00 | - |
| Modi Entertainers Networks Private Limited 1,000 Equity Shares of Rs. 10 each fully paid up | 0.10 | 0.10 |
| Indo Euro Investment Company Limited 36,750 Equity Shares of Rs. 100 each fully paid up | 36.78 | 36.78 |
| Bharti Agritech Private Limited 9,800 Equity Shares of Rs. 100 each fully paid up | 9.80 | 9.80 |
| Modicare Limited 7,20,000 Equity Shares of Rs. 10 each fully paid up Less: Provision for diminution in the value of investment | 72.00 <u>36.00</u> 36.00 | 72.00 <u>36.00</u> 36.00 |
| Sundaram BNP Paribas (Formerly Sundaram Mutual Fund) 38,53,758 Units of Sundaram BNP Paribas Bond Saver - Appreciation of Rs. 10 each 23,01,943 Units of Sundaram BNP Paribas Bond Saver - Bonus (Bonus Units) of Rs. 10 each Nil (Previous year 10,00,000) Units of Sundaram Fixed Term Plan Series 1 Feb'06 (100 days) - Growth Plan of Rs. 10 each | 597.31 236.84 - - | 597.31 236.84 100.00 - |
| Franklin Templeton Mutual Fund 25,59,040 Units of Templeton India Income Fund - Growth of Rs. 10 each 20,00,000 Units of Templeton Monthly Income Plan - Half Yearly Dividend of Rs. 10 each 24,11,636 (Previous year 35,84,037) Units of Templeton India Government Securities Fund - Growth Plan of Rs. 10 each Nil (Previous year 14,33,918) Units of Templeton India Income Builder Account Plan A - Growth of Rs. 10 each 35,90,487 Units of Franklin Templeton Capital Safety Fund -3 Years Plan - Growth of Rs. 10 each | 353.50 198.18 398.40 - 359.05 | 353.50 198.18 597.23 300.00 - |

GODFREY PHILLIPS INDIA LIMITED

| | Rupees in lacs | |
|--|--|---|
| | As at 31.3.2007 | As at 31.3.2006 |
| SCHEDULE 5- Investments (continued) | | |
| ICICI Prudential Mutual Fund 68,52,202 (Previous year 103,08,923) Units of ICICI Prudential Income Plan - Growth of Rs. 10 each Nil (Previous year 25,56,402) Units of ICICI Prudential Gilt Fund Investment Plan - Growth of Rs. 10 each Nil (Previous year 45,38,687) Units of ICICI Prudential Flexible Income Plan - Growth of Rs. 10 each 99,68,157 (Previous year 100,00,000) Units of ICICI Prudential FMP - Growth Yearly XII Institutional of Rs. 10 each 50,00,000 Units of ICICI Prudential FMP Plan - Institutional Cumulative - XXVIII of Rs. 10 each 47,15,379 Units of ICICI Prudential Blended Plan A - Growth of Rs. 10 each 30,00,000 Units of ICICI Prudential FMP Series 34 - One year Plan B Institutional Growth of Rs. 10 each 131,55,625 Units of ICICI Prudential Hybrid FMP 13 Months Plan - Institutional - Growth of Rs. 10 each | 967.60 - - 1080.00 500.00 500.00 300.00 1315.56 | 1455.72 398.12 500.00 1000.00 500.00 - - - |
| Birla Mutual Fund 42,47,005 Units of Birla Income Plus Plan B - Growth of Rs. 10 each Nil (Previous year 14,12,030) Units of Birla Gilt Plus P F Plan - Growth of Rs. 10 each 12,46,416 Units of Birla Gilt Plus Regular Plan - Growth of Rs. 10 each Nil (Previous year 100,00,000) Units of Birla Fixed Term Plan Series A - Growth of Rs. 10 each 17,68,113 Units of Birla MIP Plan C - Growth of Rs. 10 each 50,00,000 Units of Birla FTP Series H - Growth of Rs. 10 each 28,35,235 (Previous year 26,49,562) Units of Birla Sun Life Monthly Income- Quarterly Dividend - Reinvestment of Rs. 10 each 100,00,000 Units of Birla FTP - Institutional - Series U - Growth of Rs. 10 each Nil (Previous year 2,99,022) Units of Birla Cash Institutional Plan - Growth of Rs. 10 each | 757.68 - 199.37 - 277.78 500.00 319.83 1000.00 - | 757.68 199.02 199.37 1000.00 277.78 500.00 299.44 - 56.00 |
| Kotak Mahindra Mutual Fund 17,31,037 (Previous year 21,54,634) Units of Kotak Gilt (Investment Regular) - Growth of Rs. 10 each 16,78,451 (Previous year 27,52,305) Units of Kotak Bond Regular - Growth of Rs. 10 each 10,00,000 Units of Kotak Wealth Builder Series 1 - Growth of Rs. 10 each 20,00,000 Units of Kotak Flexi Fund of Funds - Series II (Dividend) of Rs. 10 each | 291.53 249.33 100.00 200.00 | 362.87 408.84 - - |
| DSP Merrill Lynch Mutual Fund 39,55,693 Units of DSP Merrill Lynch Bond Fund Retail - Growth of Rs. 10 each | 595.82 | 595.82 |
| SBI Mutual Fund 34,44,028 Units of Magnum Income Fund - Growth Plan of Rs. 10 each 22,92,313 Units of Magnum Monthly Income Plan - Growth Option of Rs. 10 each | 397.87 316.21 | 397.87 316.21 |
| Standard Chartered Mutual Fund 22,40,889 (Previous year 136,53,406) Units of GSSG GSSIF - Investment Plan - Growth Option of Rs. 10 each 150,00,000 Units of Grindlays Fixed Maturity 7th Plan - B - Growth of Rs. 10 each 50,00,000 Units of Standard Chartered Enterprise Equity Fund - Growth of Rs. 10 each 1,37,87,625 Units of Standard Chartered Fixed Maturity Plan Yearly Series 1 - Growth of Rs. 10 each | 269.48 1500.00 500.00 1378.76 | 1641.90 1500.00 - - |
| HDFC Mutual Fund 40,56,978 Units of HDFC Income Fund - Growth of Rs. 10 each Nil (Previous year 16,58,375) Units of HDFC High Interest Fund - Growth Plan of Rs. 10 each Nil (Previous year 5,91,900) Units of HDFC Cash Management Fund - Saving Plan - Weekly Dividend - Reinvestment of Rs. 10 each | 471.19 - - | 471.19 254.87 85.45 |
| DBS Chola Mutual Fund (Formerly Chola Mutual Fund) Nil (Previous year 5,88,235) Units of DBS Chola Triple Ace - Regular - Cumulative of Rs. 10 each 7,85,989 Units of DBS Chola Triple Ace- Regular - Bonus - Bonus Units of Rs. 10 each 30,00,000 Units of DBS Chola Fixed Maturity Plan - Series 6 (371 Days Plan) - Cumulative of Rs. 10 each | - 88.89 300.00 | 99.38 88.89 - |
| HSBC Mutual Fund 50,00,000 Units of HSBC Fixed Term Series 13 Institutional Growth of Rs. 10 each 100,00,000 Units of HSBC Fixed Term Series 9 - Growth of Rs. 10 each 100,00,000 Units of HSBC Fixed Term Series 15 - Institutional - Growth of Rs. 10 each | 500.00 1000.00 1000.00 | 500.00 - - |
| Principal Mutual Fund Nil (Previous year 14,01,384) Units of Principal Income Fund-Growth Plan of Rs. 10 each Nil (Previous year 20,00,000) Units of Principal Deposit Fund (FMP- 6) 371 Days Plan Mar 05 - Growth Rs. 10 each 38,42,983 Units of Principal Income Fund - Growth Plan of Rs. 10 each (purchased during the year) 30,00,000 Units of Pnb Fixed Maturity Plan - (FMP - 37) 385 Days - Series IV - Mar 07 Institutional Growth Plan of Rs. 10 each | - - 400.20 300.00 | 200.00 200.00 - - |

GODFREY PHILLIPS INDIA LIMITED

| | Rupees in lacs | |
|---|--------------------|--------------------|
| | As at 31.3.2007 | As at 31.3.2006 |
| SCHEDULE 5- Investments (continued) | | |
| UTI Mutual Fund | | |
| Nil (Previous year 13,93,338) Units of UTI Bond Advantage Fund Growth Plan of Rs. 10 each | - | 205.54 |
| Nil (Previous year 50,00,000) Units of UTI Fixed Maturity Plan - (YFMP/02/05) Growth Plan of Rs. 10 each | - | 500.00 |
| 100,00,000 Units of UTI - Fixed Maturity Plan - (YFMP/0906) Growth Plan of Rs. 10 each | 1000.00 | - |
| Reliance Mutual Fund | | |
| 14,11,423 Units of RMTF - Retail Plan - Growth Plan - Bonus Option of Rs. 10 each | 142.86 | 142.86 |
| Nil (Previous year 50,00,000) Units of Reliance Fixed Maturity Fund - Annual Plan - Series1- Growth Option of Rs. 10 each | - | 500.00 |
| 9,72,195 Units of RIF Retail Plan - Growth of Rs. 10 each | 100.00 | 100.00 |
| 100,00,000 Units of Reliance Fixed Horizon Fund I - Annual Plan - Series III Institutional Growth Plan of Rs. 10 each | 1000.00 | - |
| 50,00,000 Units of Reliance Fixed Horizon Fund II - Annual Plan - Series II - Institutional Growth Plan of Rs. 10 each | 500.00 | - |
| 20,000 (Previous year 50,000) Units of Reliance Equity Opportunities Fund - Growth of Rs. 10 each | 2.00 | 5.00 |
| Deutsche Mutual Fund | | |
| Nil (Previous year 50,00,000) Units of Deutsche Insta Fixed Term Fund - Growth Option of Rs. 10 each | - | 500.00 |
| Nil (Previous year 1,54,924) Units of Deutsche Insta Cash Plus Fund '- Regular Dividend Plan of Rs. 10 each | - | 15.74 |
| Nil (Previous year 84,615) Units of Deutsche Short Maturity Mutual Fund '-Growth Plan of Rs. 10 each | - | 8.90 |
| TATA Mutual Fund | | |
| Nil (Previous year 50,00,000) Units of TATA Fixed Horizon Fund Series 1 - Plan A (371 days) - Growth of Rs. 10 each | - | 500.00 |
| Nil (Previous year 100,00,000) Units of TATA Fixed Horizon Fund Series 3 - Scheme B (6 Months) - Growth of Rs. 10 each | - | 1000.00 |
| Nil (Previous year 60,252) Units of TIFG Tata Income Fund - Appreciation of Rs. 10 each | - | 12.50 |
| ING Vysya Mutual Fund | | |
| Nil (Previous year19,69,066) Units of ING Vysya Select Debt Fund - Growth of Rs. 10 each | - | 200.00 |
| 16,67,838 Units of ING Vysya Income Fund - Short Term Plan - Growth Option of Rs. 10 each | 219.25 | - |
| 100,00,000 Units of ING Vysya Fixed Maturity Fund - XXIV - Growth of Rs. 10 each | 1000.00 | - |
| Government Securities (lodged as security with Government Authorities) | 0.36 | 0.36 |
| | 24579.21 | 21111.64 |
| Aggregate amount of quoted investments | 708.69 | 637.71 |
| Aggregate amount of unquoted investments | | |
| - Units of Mutual Funds | 23734.49 | 20340.02 |
| - Others | 136.03 | 133.91 |
| | 23870.52 | 20473.93 |
| Market value of quoted investments | 924.03 | 872.16 |
| Net asset value/repurchase price of units of Mutual Funds | 27844.95 | 24391.44 |

GODFREY PHILLIPS INDIA LIMITED

| | Rupees in lacs | |
|---|--------------------|--------------------|
| | As at 31.3.2007 | As at 31.3.2006 |
| SCHEDULE 6 - Inventories | | |
| At cost or under: | | |
| Stores and spare parts | 744.39 | 775.19 |
| At lower of cost and net realisable value: | | |
| Raw and packing materials | 10054.32 | 8752.88 |
| Work-in-process | 124.62 | 102.03 |
| Finished goods - Cigarettes | 3190.03 | 4520.00 |
| - Cigars | 174.86 | 119.37 |
| Other goods | 729.73 | 602.27 |
| Real estate* | 405.69 | 405.69 |
| | 15423.64 | 15277.43 |
| *Includes land at revalued cost | | |
| SCHEDULE 7- Sundry debtors | | |
| CONSIDERED GOOD | | |
| Over six months - unsecured | 17.45 | 1.17 |
| Others - secured | 4.10 | 3.43 |
| - unsecured | 1548.06 | 1155.06 |
| CONSIDERED DOUBTFUL | | |
| Over six months - unsecured | 70.96 | 74.16 |
| Others - unsecured | 5.24 | 4.41 |
| | 1645.81 | 1238.23 |
| Less: Provision for doubtful debts | 76.20 | 78.57 |
| | 1569.61 | 1159.66 |
| SCHEDULE 8 - Cash and bank balances | | |
| Cash on hand | 28.54 | 16.68 |
| Cheques on hand | 710.90 | 120.10 |
| With scheduled banks : On current accounts | 751.56 | 511.21 |
| : On margin money accounts | 38.06 | 36.72 |
| : On fixed deposit accounts** | 3.25 | 0.45 |
| | 1532.31 | 685.16 |
| ** Lodged as security with Government Authorities | | |

GODFREY PHILLIPS INDIA LIMITED

| | Rupees in lacs | |
|--|--------------------|--------------------|
| | As at 31.3.2007 | As at 31.3.2006 |
| SCHEDULE 9 - Loans and advances | | |
| Unsecured, considered good, unless otherwise stated: | | |
| Advances recoverable in cash or in kind or for value to be received* | 1840.66 | 1915.51 |
| Considered doubtful | - | 64.87 |
| | <u>1840.66</u> | <u>1980.38</u> |
| Less: Provision for doubtful advances | - | 64.87 |
| | <u>1840.66</u> | <u>1915.51</u> |
| Inter corporate deposits | 975.00 | 825.00 |
| With excise and customs on current/cenvat accounts | 319.92 | 1149.33 |
| Income-tax recoverable | <u>954.14</u> | <u>917.21</u> |
| | <u>4089.72</u> | <u>4807.05</u> |
| * Includes: | | |
| i) Rs. 4.85 lacs (previous year Rs. 0.37 lac) due from officer/directors of the Company. Maximum amount due during the year Rs. 8.97 lacs (previous year Rs. 2.81 lacs). | | |
| ii) Rs. 0.12 lac (previous year Rs. 0.05 lac) due from Modipon Ltd., a company under the same management. Maximum amount due during the year Rs. 0.14 lac (previous year Rs. 0.11 lac). | | |
| iii) Rs. Nil (previous year Rs. 0.03 lac) due from a private company in which some of the directors of the Company are directors. | | |
| SCHEDULE 10 - Current liabilities | | |
| Sundry creditors # | | |
| Dues of small scale industrial undertakings | 779.86 | 799.96 |
| Dues of other than small scale industrial undertakings | 8933.94 | 9589.11 |
| Interest accrued but not due on loans, deposits and deferred credits | <u>32.97</u> | <u>42.70</u> |
| | <u>9746.77</u> | <u>10431.77</u> |
| # Sundry creditors do not include any amounts outstanding as on March 31, 2007 which are required to be credited to the Investor Education and Protection Fund. | | |
| SCHEDULE 11 - Provisions | | |
| Proposed dividend | 2599.70 | 2339.72 |
| Corporate dividend tax | 441.82 | 328.15 |
| Taxation (net of payments) | 850.39 | 746.53 |
| Provision for encashable leave salary | <u>1741.47</u> | <u>1500.35</u> |
| | <u>5633.38</u> | <u>4914.75</u> |
| SCHEDULE 12 - Deferred taxation | | |
| Deferred tax liabilities | | |
| - Accelerated depreciation | 1029.94 | 1115.59 |
| - Capital gains | <u>109.73</u> | <u>63.80</u> |
| | <u>1139.67</u> | <u>1179.39</u> |
| Deferred tax assets | | |
| - Accrued expenses deductible on payment | 663.25 | 656.16 |
| - Voluntary retirement scheme | 3.78 | 7.49 |
| - Provision for doubtful debts/advances | <u>25.90</u> | <u>48.28</u> |
| | <u>692.93</u> | <u>711.93</u> |
| Deferred tax liabilities - net | <u>446.74</u> | <u>467.46</u> |

GODFREY PHILLIPS INDIA LIMITED

| | Rupees in lacs | |
|--|---------------------------------|---------------------------------|
| | For the year ended 31.3.2007 | For the year ended 31.3.2006 |
| SCHEDULE 13 - Other income | | |
| Rent and hire charges (gross) | 100.32 | 90.91 |
| -Interest (gross) from debts, deposits, loans, etc. | 133.98 | 235.64 |
| Income (gross) from other long term investments: | | |
| - Dividends | 38.61 | 36.03 |
| - Interest | 25.91 | 25.91 |
| Profit on redemption/sale of other long term investments | 1913.26 | 261.91 |
| Profit on sale of other current investments | 344.40 | 273.10 |
| Doubtful debts written back | 5.70 | - |
| Export incentives | 82.08 | 164.30 |
| Sundries | <u>522.35</u> | <u>471.33</u> |
| | <u>3166.61</u> | <u>1559.13</u> |
| Tax deducted at source: | | |
| Interest income | 20.14 | 18.17 |
| Rent and hire charges | 23.90 | 16.72 |
| Sundries | <u>0.45</u> | <u>0.28</u> |
| SCHEDULE 14 - Raw and packing materials, manufactured and other goods | | |
| Raw and packing materials consumed | 18997.06 | 16741.55 |
| Purchases for resale (including transferred from raw and packing materials) | <u>7829.03</u> | <u>7426.06</u> |
| (Increase)/decrease in work-in-process, finished goods and other goods | | |
| Opening stock: | | |
| - Work-in-process | 102.03 | 89.66 |
| - Cigarettes | 4520.00 | 2860.04 |
| - Cigars | 119.37 | 56.76 |
| - Other goods | 602.27 | 545.32 |
| - Real estate | <u>405.69</u> | <u>405.69</u> |
| | <u>5749.36</u> | <u>3957.47</u> |
| Closing stock: | | |
| - Work-in-process | 124.62 | 102.03 |
| - Cigarettes | 3190.03 | 4520.00 |
| - Cigars | 174.86 | 119.37 |
| - Other goods | 729.73 | 602.27 |
| - Real estate | <u>405.69</u> | <u>405.69</u> |
| | <u>4624.93</u> | <u>5749.36</u> |
| | <u>27950.52</u> | <u>22375.72</u> |

GODFREY PHILLIPS INDIA LIMITED

| | Rupees in lacs | |
|--|---------------------------------|---------------------------------|
| | For the year ended 31.3.2007 | For the year ended 31.3.2006 |
| SCHEDULE 15 - Manufacturing and other expenses | | |
| Salaries, wages and bonus | 5971.30 | 5444.68 |
| Contribution to provident and other funds (including administrative charges) | 430.73 | 382.81 |
| Workmen and staff welfare expenses | 696.78 | 678.00 |
| Contribution to gratuity and superannuation fund | 730.71 | 561.78 |
| Consumption of stores and spare parts | 41.72 | 61.92 |
| Power and fuel | 983.89 | 914.28 |
| Repairs and maintenance - Buildings | 227.32 | 194.67 |
| - Machinery | 610.19 | 560.18 |
| - Others | 260.46 | 252.40 |
| Rent | 688.33 | 583.35 |
| Rates and taxes | 3730.71 | 3686.84 |
| Insurance | 351.20 | 312.37 |
| Freight and cartage | 1111.53 | 869.37 |
| Legal and professional expenses | 1532.79 | 1481.95 |
| Auditors' remuneration | 79.54 | 69.18 |
| Interest - Fixed loans | 272.77 | 219.41 |
| - Others | 19.67 | 58.89 |
| Cash discounts | 61.07 | 48.37 |
| Commission paid to other than sole selling agents | 113.25 | 129.15 |
| Advertising and sales promotion | 11198.50 | 11051.26 |
| Selling and distribution expenses | 1762.01 | 1714.26 |
| Travelling and conveyance | 1659.28 | 1612.04 |
| Donations | 130.88 | 65.30 |
| Bad debts and advances written off | 0.39 | 0.67 |
| Provision for doubtful debts and advances | 3.33 | 6.90 |
| Fixed assets written off/written down | 81.75 | 103.43 |
| Loss on sale of fixed assets | 51.72 | 37.88 |
| Technical services fee and royalty | 666.87 | 623.93 |
| Provision for diminution in the value of investments | 0.34 | 35.95 |
| Preliminary expenses written off | 0.37 | - |
| Miscellaneous expenses | 3371.11 | 3264.09 |
| | <u>36840.51</u> | <u>35025.31</u> |
| (a) Consumption of stores and spare parts has been computed after deducting the amount of spare parts charged to repairs and maintenance - machinery | 438.72 | 442.93 |
| (b) Insurance has been computed after deducting the amount for transit insurance charged to raw and packing materials, stores, etc. | 11.90 | 13.41 |

GODFREY PHILLIPS INDIA LIMITED
SCHEDULE 16 Notes to the consolidated accounts
1. BASIS OF CONSOLIDATION

The Consolidated Financial Statements have been prepared in accordance with Accounting Standard 21 (AS 21) - "Consolidated Financial Statements" and Accounting Standard 23 (AS 23) - "Accounting for Investments in Associates in Consolidated Financial Statements" issued by the Institute of Chartered Accountants of India.

- a) The subsidiaries (which along with Godfrey Phillips India Limited, the Parent, constitute the Group) considered in the preparation of these consolidated financial statements are:

| Name | Country of incorporation | Percentage of voting power as at | |
|---|--------------------------|----------------------------------|---------------|
| | | March 31,2007 | March 31,2006 |
| International Tobacco Company Limited | India | 100 | 100 |
| Chase Investments Limited | India | 100 | 100 |
| City Leasing and Finance Company Limited | India | 100 | 100 |
| Manhattan Credits and Finance Limited | India | 100 | 100 |
| Kashyap Metal and Allied Industries Limited | India | 66.23* | 66.23* |
| Unique Space Developers Limited | India | 66.67* | 66.67* |
| * Held through other subsidiaries | | | |

- b) The Group's associate is:

| | | | |
|----------------------------------|-------|-------|-------|
| Success Principles India Limited | India | 48.89 | 48.89 |
|----------------------------------|-------|-------|-------|

These Consolidated Financial Statements are based, in so far as they relate to amounts included in respect of subsidiaries and an associate, on the audited financial statements prepared for consolidation in accordance with the requirements of AS 21 and AS 23 by each of the aforesaid entities.

2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost convention in accordance with applicable accounting standards.

- i) Fixed assets and depreciation

Fixed assets are stated at cost of acquisition or construction less accumulated depreciation and include interest on loans attributable to the acquisition of assets upto the date of their commissioning.

Value of goodwill and patents and trade marks is not amortized because, in view of the management, there is no diminution in their value. No amortization is done in respect of leasehold land in view of the leases being perpetual.

Depreciation in the accounts is charged on the straight line method at the rates prescribed under the Companies Act, 1956 and is calculated on a full year basis on additions during the year and no depreciation is provided on assets deleted during the year. Extra shift depreciation is computed in full on a concern basis and not prorated to the number of days of shift working. Assets, other than items costing upto Rs. 5000 each, are depreciated upto 95% of their value and 5% residual value is retained in the books.

The depreciation rates which are different from the principal rates specified in Schedule XIV of the Companies Act, 1956 are as follows:-

| | |
|---|--|
| Items of machinery and equipment costing upto Rs.5,000 each acquired upto December 16, 1993 | 95% |
| Assets, other than data processing equipment, acquired upto December 31, 1987 and data processing equipment acquired upto December 31, 1986 | SLM equivalent of rates applicable under the Income-tax Rules, 1962 at the time of acquisition of such assets. |

- ii) Investments

Long term investments, other than in associates, are stated at cost. Provision is made for permanent diminution in the value of long term investments, where applicable. Investment in the associate is accounted for using the equity method. Current investments are stated at cost or fair value, whichever is lower.

GODFREY PHILLIPS INDIA LIMITED

SCHEDULE 16 Notes to the consolidated accounts (contd.)

iii) Inventories

Inventories are valued at cost or net realisable value, whichever is lower except stores and spare parts which are valued at cost or under and real estate which is valued at revalued cost of land and construction thereon at cost. The cost of raw materials, stores and spares and other goods is determined on monthly weighted average cost basis. The cost of finished goods and work-in-process is determined on standard absorption cost basis which approximates actual costs. Absorption cost comprises raw materials cost, direct wages, appropriate share of production overheads and applicable excise duty paid/payable thereon.

iv) Revenue recognition

Sale of goods is recognised at the point of despatch of goods to customers. Sales are inclusive of excise duty, where applicable but are exclusive of sales tax. Income from investments is recognised on an accrual basis.

v) Retirement benefits

The Group has various schemes of retirement benefits such as provident fund, superannuation fund and gratuity fund, duly recognised by the Income-tax authorities. The funds are administered through trustees and the contributions are charged against the revenue every year. Accrued liability for gratuity and leave salary encashable on retirement are determined on the basis of actuarial valuation at the end of the financial year.

vi) Income-tax

Provision for income-tax is based on the assessable profits computed in accordance with the provisions of the Income-tax Act, 1961. Deferred tax is recognised, subject to the consideration of prudence, on timing differences, being the differences between taxable income and accounting income that originate in one period and are capable of reversal in one or more subsequent periods. Deferred tax assets are recognised on unabsorbed depreciation and carry forward of losses based on virtual certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised.

vii) Proposed dividends

Dividends proposed by the directors as appropriation of profits are provided for in the books of account, pending approval of shareholders at the annual general meeting.

viii) Research and development expenditure

Research and development expenditure is charged to revenue under the natural heads of account in the year in which it is incurred.

ix) Foreign currency transactions

Transactions in foreign currency are recorded at the exchange rates prevailing at the time of transactions. Gains/losses on settlement of the transactions are taken to the relevant revenue heads in the profit and loss account except where the foreign currency liabilities have been incurred in connection with fixed assets acquired upto March 31, 2004 and subsequent thereto in case of fixed assets acquired

from a country outside India, where the exchange differences are adjusted in the carrying amount of concerned fixed assets. Other monetary items are translated at the year end rates and the gains/losses are taken to the relevant revenue heads in the profit and loss account.

The difference between the forward rate and the exchange rate at the date of the forward contract transaction is recognised as income or expense over the life of the contract in the profit and loss account. The exchange difference on such contracts i.e. difference between the exchange rate at the reporting/settlement date and the exchange rate on the date of inception of the contract/the last reporting date, is recognised as income or expense for the period except where the foreign exchange liabilities have been incurred in connection with fixed assets acquired upto March 31, 2004 and subsequent thereto in case of fixed assets acquired from a country outside India, where the exchange differences are adjusted in the carrying amount of concerned fixed assets.

x) Investment subsidiaries

Income recognition, assets classification and provisioning are done in accordance with the prudential norms/guidelines issued by the Reserve Bank of India from time to time for Non-Banking Financial Companies.

| | Rupees in lacs | |
|--|------------------------------|-------------------------------|
| | For the year ended 31.3.2007 | For the year ended 31.03.2006 |
| | | |

3. REMUNERATION OF DIRECTORS

Included in Schedule 15 are:

| | | |
|----------------------------|---------------|---------------|
| Salaries* | 81.36 | 81.18 |
| Monetary value of benefits | 31.49 | 29.03 |
| Commission | 56.80 | 56.80 |
| Sitting fees | 9.50 | 9.30 |
| | <u>179.15</u> | <u>176.31</u> |

* excludes incremental liability for gratuity and encashable leave salary which are actuarially determined on an overall basis.

4. EXPENDITURE ON SCIENTIFIC RESEARCH AND DEVELOPMENT

| | | |
|---------------------|--------|--------|
| Revenue expenditure | 356.43 | 310.75 |
| Capital expenditure | 58.64 | 305.97 |

5. AUDITORS' REMUNERATION*

| | | |
|--|--------------|--------------|
| As auditors | | |
| Audit fee | 35.81 | 31.83 |
| Out of pocket expenses | 3.50 | 3.20 |
| In other capacity | | |
| For limited review of unaudited financial results | 21.75 | 18.75 |
| For corporate governance, consolidated financial statements and other certification work | 3.11 | 2.13 |
| For tax audit | 10.03 | 6.98 |
| For management consultancy | - | 2.00 |
| For miscellaneous certificates | 5.34 | 4.29 |
| | <u>79.54</u> | <u>69.18</u> |

*Net of service tax where cenvat credit is available

GODFREY PHILLIPS INDIA LIMITED

SCHEDULE 16 Notes to the consolidated accounts (contd.)

| | Rupees in lacs | |
|--|-----------------|------------------|
| | As at 31.3.2007 | As at 31.03.2006 |

6. CONTINGENT LIABILITIES NOT PROVIDED FOR

| | | |
|---|--------|--------|
| a) Demands from excise, sales tax and other authorities disputed by the Group | 288.50 | 781.12 |
| b) Claims against the Group not acknowledged as debts | 1.37 | 1.37 |

7. The Group has received various show cause notices from Excise Authorities asking them to explain why certain amounts mentioned in these notices should not be paid. As these notices are in the nature of explanations required, the Group does not consider these to constitute a liability of any kind.

8. The Group has entered into various operating lease agreements for premises (residential, offices, godowns, etc.). These lease arrangements are cancellable in nature and range between two to three years and are usually renewable by mutual consent on mutually agreeable terms. The aggregate rentals paid under such agreements have been charged as rent in Schedule 15.

The Group has let out and sub-let part of its owned and rented office premises under lease arrangements which are cancellable in nature but renewable on mutually agreeable terms. The rent and hire charges in respect thereof have been accrued as income in Schedule 13.

9. Exchange gain included in the profit and loss account for the year is Rs. 4.60 lacs (previous year exchange loss Rs. 6.00 lacs).

| | For the year ended 31.3.2007 | For the year ended 31.03.2006 |
|--|------------------------------|-------------------------------|
|--|------------------------------|-------------------------------|

10. Earnings per share has been computed as under:

| | | |
|---|-------------|-------------|
| (a) Net profit as per consolidated profit and loss account (Rs. lacs) | 8897.05 | 5979.15 |
| (b) Weighted average number of equity shares outstanding | 1,03,98,784 | 1,03,98,784 |
| (c) Basic and diluted earnings per share (Rupees) (face value of share - Rs. 10 each) | 85.56 | 57.50 |

11. Related party disclosures under Accounting Standard 18

(A) Names of related parties and nature of related party relationships:

(a) Associates:
Philip Morris International Finance Corporation, of which Godfrey Phillips India Limited is an associate.

(b) Key management personnel:

| | |
|----------------------|---------------------------------|
| Mr. K.K.Modi | President and Managing Director |
| Mr. Lalit Kumar Modi | Executive Director |
| Mr. Samir Kumar Modi | Executive Director |
| Mr. S.V.Shanbhag | Whole-time Director |

(c) Enterprises over which key management personnel and their relatives are able to exercise significant influence:

Modi Entertainment Limited
Modicare Limited
Modern Homecare Products Limited
K.K.Modi Investment & Financial Services Private Limited
Beacon Travels Private Limited
Modipon Limited
Assam Cigarette Company Private Limited
R.C. Tobacco Private Limited
HMA Udyog Private Limited
Kaushambi Investment & Leasing Company Private Limited
Bina Fashion N Food Private Limited
Modicare Foundation
Modi Apollo International Group Private Limited
Priyal Hitay Nidhi
Colorbar Cosmetics Private Limited
Gujarmal Modi Science Foundation
Ananda Embroidery Industries Private Limited
Modi Healthcare Placement India Private Limited.

GODFREY PHILLIPS INDIA LIMITED

SCHEDULE 16 Notes to the consolidated accounts (contd.)

(B) Disclosure of transactions between the Group and related parties and the status of outstanding balances as at the year end:

| Nature of transactions | Associate | | Key management personnel | | Enterprises over which significant influence exists | |
|--|----------------|--------|--------------------------|--------|---|----------------------|
| | Rupees in lacs | | | | | |
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| Sale of goods, spare parts, etc. | - | - | 0.60 | - | 3.60 | 10.83 |
| Purchase of goods/services | - | - | - | - | 611.12 [#] | 6724.78 [#] |
| Purchase of fixed assets | - | - | - | - | 4.08 | 0.97 |
| Rent and hire charges received | - | - | - | - | 94.92 | 76.77 |
| Rent paid | - | - | - | - | 22.41 | 19.35 |
| Payments for employees on deputation | - | - | - | - | 82.17 | 72.90 |
| Donations given | - | - | - | - | 95.60 | 28.50 |
| Expenses recovered | - | - | 0.53 | 0.54 | 2.27 | 1.76 |
| Expenses reimbursed | - | - | - | - | 4.89 | 4.47 |
| Dividend payment (gross) | - | - | - | - | - | - |
| - Philip Morris International Finance Corpn. | 840.76 | 822.07 | - | - | - | - |
| Managerial remuneration ## | - | - | 169.64 | 167.01 | - | - |
| Provision for doubtful advances written back | - | - | - | - | - | 2732.64 [@] |
| Balance outstanding as at the year end | - | - | - | - | - | - |
| - Loans and advances | - | - | 0.01 | 0.33 | 12.24 | 6.74 |
| - Sundry creditors | - | - | 0.29 | 0.24 | 742.76 | 733.67 |

includes Rs. 530.26 lacs (previous year Rs. 507.03 lacs) from Beacon Travels Private Ltd. Current year figure includes sums of Rs. Nil (previous year Rs. 2489.76 lacs) relating to Assam Cigarettes Company Pvt. Ltd. and Rs. Nil (previous year Rs. 3682.02 lacs) to R C Tobacco Pvt. Ltd. towards additional consideration for cigarettes purchased in an earlier year.

excludes incremental liability for gratuity and encashable leave salary which are actuarially determined on an overall basis.

@ relates to Assam Cigarette Company Pvt. Ltd. and R C Tobacco Pvt. Ltd.

12. Segment reporting disclosures under Accounting Standard 17

(A) Business segments:

Based on the guiding principles given in Accounting Standard-17 "Segment Reporting" issued by the Institute of Chartered Accountants of India, the Group's primary business segments are (a) Cigarette and tobacco products; (b) Tea and other retail products and (c) Others (investment and real estate business activities of the subsidiaries).

(B) Geographical segments:

Since the Group's activities/operations are primarily within the country and considering the nature of products it deals in, the risks and returns are same and as such there is only one geographical segment.

GODFREY PHILLIPS INDIA LIMITED

SCHEDULE 16 Notes to the consolidated accounts (contd.)

Financial information about the primary business segments is presented in the table below:

| Rupees in lacs | | | | | | | | | | |
|----------------|--|-----------------------------------|-------------------------------|----------|---------|-----------------------------------|-------------------------------|----------|---------|-----------|
| | | Cigarette and tobacco products | Tea and other retail products | Others | Total | Cigarette and tobacco products | Tea and other retail products | Others | Total | |
| | | For the year ended March 31, 2007 | | | | For the year ended March 31, 2006 | | | | |
| 1. | Segment revenue | - External sales (gross) | 153906.05 | 5770.66 | - | 159676.71 | 138323.07 | 4863.65 | - | 143186.72 |
| | - Less: Excise duty | | 83528.33 | - | - | 83528.33 | 74770.57 | - | - | 74770.57 |
| | - Net sales | | 70377.72 | 5770.66 | - | 76148.38 | 63552.50 | 4863.65 | - | 68416.15 |
| | - Other income | | 694.67 | 34.78 | 40.17 | 769.62 | 677.56 | 51.75 | 88.46 | 817.77 |
| | - Total | | 71072.39 | 5805.44 | 40.17 | 76918.00 | 64230.06 | 4915.40 | 88.46 | 69233.92 |
| | - Unallocable income | | | | | 2396.99 | | | | 741.36 |
| | Total revenue | | | | | 79314.99 | | | | 69975.28 |
| 2. | Segment result | | 12329.19 | (651.75) | (10.13) | 11667.31 | 10042.04 | (461.71) | 14.87 | 9595.20 |
| | - Unallocable income net of unallocable expenses | | | | | 2326.61 | | | | 661.06 |
| | Profit before interest and taxation | | | | | 13993.92 | | | | 10256.26 |
| | - Interest expenses | | | | | (286.65) | | | | (275.91) |
| | - Provision for taxation | | | | | (4813.43) | | | | (4004.74) |
| | Profit after taxation before share of results of an associate and minority interests | | | | | 8893.84 | | | | 5975.61 |
| | Share of net profit of an associate | | | | | 2.12 | | | | 2.28 |
| | Profit after taxation before minority interests | | | | | 8895.96 | | | | 5977.89 |
| 3. | Other information | As at March 31, 2007 | | | | As at March 31, 2006 | | | | |
| a) | Segment assets | | 33276.97 | 1701.25 | 2102.53 | 37080.75 | 33163.32 | 1482.67 | 1745.62 | 36391.61 |
| | - Unallocable assets/investments | | | | | 27284.58 | | | | 23472.21 |
| | Total assets | | | | | 64365.33 | | | | 59863.82 |
| b) | Segment liabilities | | 10702.05 | 569.69 | 51.45 | 11323.19 | 11351.36 | 391.09 | 19.10 | 11761.55 |
| | - Share capital, reserves and minority interests | | | | | 42465.09 | | | | 36610.65 |
| | - Unallocable liabilities | | | | | 10577.05 | | | | 11491.62 |
| | Total liabilities | | | | | 64365.33 | | | | 59863.82 |
| | | For the year ended March 31, 2007 | | | | For the year ended March 31, 2006 | | | | |
| c) | Capital expenditure including capital work in progress | | 2333.48 | 163.12 | - | 2496.60 | 2326.00 | 154.38 | 11.20 | 2491.58 |
| d) | Depreciation | | 2053.94 | 78.33 | 30.51 | 2162.78 | 1961.84 | 66.02 | 25.03 | 2052.89 |
| e) | Non cash expenditure other than depreciation | | 218.45 | 52.55 | - | 271.00 | 343.18 | 114.80 | - | 457.98 |

Segment accounting policies:

In addition to the significant accounting policies applicable to the business segments as set out in Note 2 in Schedule 16, the accounting policies in relation to segment accounting are as under:

a) Segment revenue and expenses:

Segment revenue and expense only include items directly attributable to the segment. They do not include income from or loss on investments (other than relatable to the business activity of the investment subsidiaries), interest income from inter-corporate deposits and loans given, interest expense (excluding those relatable to segments) and bill discounting charges, donations and provision for taxation (current, deferred and fringe benefit tax). Since the corporate office of the Parent Company primarily caters to the cigarette and tobacco products segment, its expenses have been considered to be attributable to the same.

GODFREY PHILLIPS INDIA LIMITED

SCHEDULE 16 - Notes to the consolidated accounts (continued)

b) Segment assets and liabilities:

All segment assets and liabilities are directly attributable to the segment.

Segment assets include all operating assets used by the segment and consist principally of net fixed assets, inventories, sundry debtors, loans and advances and operating cash and bank balances. Segment liabilities include all operating liabilities and consist principally of creditors and accrued liabilities. Segment assets and liabilities do not include investments (other than those held by the investment subsidiaries), inter-corporate deposits and loans given, bank balances for unclaimed dividend and fixed deposits interest, real estate stock, share capital, reserves and surplus, loan funds, dividends payable and income-tax (current, deferred and fringe benefit tax).

Rupees in lacs

| | For the year ended 31.3.2007 | For the year ended 31.3.2006 |
|--|------------------------------------|------------------------------------|
|--|------------------------------------|------------------------------------|

13. Exceptional items comprise of:

a) Provision for luxury taxes on cigarettes and interest thereon reversed pursuant to orders passed by the tax authorities based on the Supreme Court judgement in January, 2005

240.59

4303.43

b) Additional purchase consideration to small scale cigarette manufacturing units in Assam in view of the Supreme Court judgement in September, 2005

-

(6171.78)

c) Write back of amount provided as doubtful of recovery in earlier years in respect of dues recoverable from manufacturing units referred to in (b) above

-
240.59

2732.65
864.30

14. Foreign currency exposures that are not hedged by derivative instruments or otherwise are as follows:

| Particulars | As at March 31, 2007 | | As at March 31, 2006 | |
|------------------------------------|--------------------------------------|-----------------------|--------------------------------------|-----------------------|
| | Amount in foreign Currency (Lacs) | Amount in Rs. Lacs | Amount in foreign Currency (Lacs) | Amount in Rs. Lacs |
| Loan funds | 75.00 USD | 3270.00 | 100.00 USD | 4478.00 |
| Sundry debtors | 29.95 USD | 1287.55 | 22.16 USD | 983.81 |
| | 0.66 EURO | 37.74 | 0.18 EURO | 9.49 |
| Current liabilities and provisions | 3.64 USD | 158.70 | 1.49 USD | 66.76 |
| | 1.88 EURO | 109.68 | 1.85 EURO | 100.25 |
| | - | - | 82.83 YEN | 34.47 |
| | - | - | 0.24 HKD | 1.40 |
| | 0.24 GBP | 20.61 | 0.01 GBP | 0.37 |

15. Excise duty related to sales has been shown as deduction from gross sales and that related to the difference between the closing stock and opening stock has been disclosed as "Increase/(decrease) in excise duty on finished goods", on the face of the profit and loss account.

16. The figures for the previous year have been re-cast, wherever necessary to conform to the current year's classification.

L.K. MODI
Executive Director

S. SERU
Chief Executive (Domestic)

R.A. SHAH
Chairman

S.V. SHANBHAG
Whole-time Director

C.M. MANIAR
LALIT BHASIN

R.N. AGARWAL
Executive Vice President (Finance)

R. JOSHI
Company Secretary

O.P. VAISH
ANUP N.KOTHARI

Directors

Mumbai: 20th June, 2007

For and on behalf of the Board of Directors



be in force for the time being.

During the tenure of his appointment, he will not be entitled to sitting fees for attending the meetings of the Board of Directors of the Company.

The appointment as aforesaid may be terminated by either party giving to the other six calendar months' notice in writing.

Copy of the draft Letter of Appointment to be issued to Mr. Lalit Kumar Modi, Executive Director is open for inspection by any member of the Company at the Registered Office of the Company during the business hours on any working day.

None of the directors except Mr. K.K. Modi, Mr. Lalit Kumar Modi and Mr. Samir Kumar Modi is deemed to be personally interested in the proposed resolution.

Your approval to the resolution is solicited.

The above should also be treated as the abstract of the terms of the appointment of Mr. Lalit Kumar Modi as Executive Director and the Memorandum of Interest of the Directors in the said appointment as contemplated by Section 302 of the Companies Act, 1956.

Item No. 10 :

On 28th September, 2004 the shareholders of the Company at their Annual General Meeting held on that date approved the appointment of Mr. Samir Kumar Modi as Executive Director of the Company for a period from 1st October, 2004 till the date of the Annual General Meeting to be held for the approval of the accounts for the financial year ending 31st March, 2007 on the remuneration and other terms and conditions detailed in a letter of appointment dated 1st October, 2004 issued to him by the Company. His present tenure would be expiring on 30th August, 2007. While considering his re-appointment for a further period the Board of Directors reviewed the remuneration payable to Mr. Modi and decided to increase the same suitably so as to bring it in line with the remuneration of Executive Directors in other organizations. The Board accordingly re-appointed Mr. Modi as Executive Director for a further period from 30th August, 2007 till the date of the Annual General Meeting of the Company to be held for approval of audited accounts etc. for the financial year ending 31st March, 2010 on the remuneration and the terms and conditions as set out in the draft letter of appointment approved by the Board at its meeting held on 20th June, 2007.

The appointment and remuneration payable to Mr. Modi is subject to the approval of the members in General Meeting provided, however, that the Board of Directors shall be authorised to make variations, amendment or revision in the salary, commission, perquisites and benefits etc. within the total value of remuneration mentioned under the said Letter of Appointment from time to time without any further reference to the General Meeting. Accordingly, the approval of the shareholders is being sought for herein.

The draft Letter of Appointment to be issued by the Company to Mr. Samir Kumar Modi, re-appointing him as an Executive Director of the Company, contains the following material terms and conditions :

1. Duties and Powers : Subject to the supervision and control of the Managing Director and Board of Directors, Mr. Samir Kumar Modi will be carrying out such duties and exercise such powers as may be entrusted to him by the Managing Director or Board of Directors of the Company from time to time.
2. Remuneration : Mr. Samir Kumar Modi will be entitled to the following emoluments, benefits and perquisites subject to the ceiling limits laid down in Sections 198, 309 of the Companies Act, 1956 and Schedule XIII thereto :
 - a. Salary : Rs. 125,000/- per month subject to revision upward as may be permitted by the Government under Schedule XIII to the Companies Act, 1956 and/or as may be approved by the Board from time to time, within the permissible limits as may be subsisting for the time being.
 - b. Commission : Commission of Rs. 15,00,000/- per annum .
 - c. Perquisites : In addition to salary and commission, he shall be entitled to the following perquisites :
 - I. Rent Free Accommodation, furniture and fixture valued in accordance with the provisions of Income-tax Act, 1961.
 - II. Expenditure on gas, electricity and water to be borne by the Company.
 - III. Two personal attendants to be provided by the Company.
 - IV. Contribution to Provident Fund, Gratuity and Super Annuation Fund as per the respective rules of the Company.
 - V. He will be entitled to 30 days privilege leave in a year and encashment of unavailed portion thereof at the end of the tenure of his appointment.
 - VI. Medical Reimbursement: Expenses incurred for himself and his family, subject to a ceiling of one month's salary in a year or three month's salary over a period of three years.
 - VII. Leave Travel Concession: For himself and his family, once in a year, incurred in accordance with the rules of the Company.
 - VIII. Club Fees: Fees of Clubs subject to a maximum of two clubs.
 - IX. Personal Accident Insurance: Premium not to exceed Rs. 4,000/- per annum.
 - X. Provision of car for use on Company's business and telephone at residence will not be considered as perquisites. Personal long distance calls on telephone and use of car for private purpose shall be billed by the Company to him.

Provided however, that the rate of commission payable to him shall not exceed 1% of the net profits of the Company computed in the manner laid down under Sections 349, 350 and 351 of the Companies Act, 1956.

Provided further that the salary, commission together with the monetary value of perquisites computed in the manner provided under the Income-tax Act, 1961, or the Rules thereunder shall not exceed Rs. 50 lacs per annum.

In the event of absence or inadequacy of profits in any financial year of the Company during his tenure as Executive Director, he will be entitled to the same remuneration etc. as above.

The Board may in the exercise of its discretion grant to Mr. Samir Kumar Modi increments in salary or modification in commission, perquisites or benefits as may be permissible under the Government guidelines as may be in force for the time being.

During the tenure of his appointment, he will not be entitled to sitting fees for attending the meetings of the Board of Directors of the Company.

The appointment as aforesaid may be terminated by either party giving to the other six calendar months' notice in writing.

Copy of the draft Letter of Appointment to be issued to Mr. Samir Kumar Modi, Executive Director is open for inspection by any member of the Company at the Registered Office of the Company during the business hours on any working day.

None of the directors except Mr. K.K. Modi, Mr. Lalit Kumar Modi and Mr. Samir Kumar Modi is deemed to be personally interested in the proposed resolution.

Your approval to the resolution is solicited.

The above should also be treated as the abstract of the terms of appointment of Mr. Samir Kumar Modi as Executive Director and the Memorandum of Interest of the Directors in the said appointment as contemplated by Section 302 of the Companies Act, 1956.

By order of the Board

Mumbai : July 31, 2007
REGISTERED OFFICE
Chakala, Andheri (E), Mumbai - 400 099

R. Joshi
Company Secretary



NOTICE

GODFREY PHILLIPS INDIA LIMITED
Registered Office : Chakala, Andheri (E), Mumbai-400 099

NOTICE is hereby given that the Seventieth Annual General Meeting of Godfrey Phillips India Limited will be held at Kishinchand Chellaram College, Dinshaw Wacha Road, Churchgate, Mumbai - 400020 on Thursday, the 30th August, 2007 at 3:30 p.m. to transact the following business :

Ordinary Business :

1. To receive, consider and adopt the audited Balance Sheet as at 31st March, 2007 and the Profit and Loss Account for the year ended on that date and the Reports of the Directors and Auditors thereon.
2. To declare Dividend on Equity Shares for the year ended 31st March, 2007.
3. To appoint a Director in place of Mr. R.A. Shah, who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint a Director in place of Mr. Anup N. Kothari, who retires by rotation and being eligible, offers himself for re-appointment.
5. To appoint a Director in place of Mr. O.P. Vaish, who retires by rotation and being eligible, offers himself for re-appointment.
6. To appoint Auditors to hold office from the conclusion of this meeting until the conclusion of the next Annual General Meeting of the Company and to fix their remuneration.

Special Business :

To consider and if thought fit, to pass the following Resolutions with or without modification :

7. As an Ordinary Resolution :

"RESOLVED THAT pursuant to Sections 198, 269, 309, 310, 311 and other applicable provisions of the Companies Act, 1956, and in particular Schedule XIII thereto, the Company hereby approves the increase in remuneration of Mr. K.K. Modi, Managing Director subject to the terms and conditions, as set out in the Explanatory Statement annexed to this notice and also in the draft of the fresh letter of appointment with increased remuneration as approved by the Board to be issued by the Company to Mr. K.K. Modi, a copy of which is submitted to this Meeting and is for the purpose of identification, signed by the Chairman."

"AND RESOLVED FURTHER THAT the Board of Directors be and are hereby authorised to amend, alter or otherwise vary the terms and conditions of the appointment of Mr. K.K. Modi including remuneration, provided that such remuneration shall not exceed the value of total remuneration set out below (which shall be mentioned in the said Letter of Appointment).

Provided that the rate of commission payable by the Company to Mr. K.K. Modi shall not exceed 2% of the net profits of the Company computed in the manner laid down under Sections 349, 350 and 351 of the Companies Act, 1956 subject to a ceiling of Rs. 60 lacs per annum.

Provided further that the total remuneration whether as salary, commission together with the monetary value of perquisites, if any, computed in the manner provided under the Income-tax Act, 1961, or the Rules thereunder or otherwise, shall not exceed Rs. one crore fifty lac per annum without the approval of the Shareholders in a General Meeting.

Provided further that the amount of remuneration by way of salary and commission payable to Mr. K.K. Modi in terms of his appointment hereinabove including the remuneration received by him from Indofill Organic Industries Limited as Managing Director shall not exceed 5% of the net profits of the Company as computed in the manner laid down under Sections 349, 350 and 351 of the Companies Act, 1956."

"AND RESOLVED FURTHER THAT pursuant to the provisions of Section 309(3) read with Section 198(4) and other applicable provisions of the Companies Act, 1956 and subject to the approval of the Central Government, if required, such remuneration as aforesaid be paid and provided to Mr. K.K. Modi as minimum remuneration, notwithstanding absence or inadequacy of profits of the Company in any financial year during Mr. K.K. Modi's term of office."

"AND RESOLVED FURTHER THAT the Board of Directors be and are hereby authorised to do and perform all such acts, deeds, matters and things and to take such steps as may be necessary or desirable to give effect to this resolution."
8. As a Special Resolution :

"RESOLVED THAT pursuant to Sections 198, 269, 309, 310, 311 and other applicable provisions of the Companies Act, 1956, and in particular Schedule XIII thereto, the Company hereby approves the terms of appointment and increase in remuneration of Mr. S.V. Shanbhag, who has been re-appointed by the Board of Directors as a Whole-time Director of the Company for a period of three years with effect from 1st October, 2007, upon the terms and conditions set out in the Explanatory Statement annexed hereto and also in the draft letter of appointment proposed to be issued by the Company to Mr. S.V. Shanbhag, a copy of which is submitted to this meeting and for the purpose of identification signed by the Chairman of the Company, which appointment is hereby specifically approved with liberty to the Directors to alter and vary the terms and conditions of the appointment and remuneration in such manner as may be agreed to between the Directors and Mr. S.V. Shanbhag and permissible in terms of the provisions of the Companies Act, 1956."
9. As an Ordinary Resolution :

"RESOLVED THAT pursuant to the provisions of Sections 198, 269, 309, 310, 311 and other applicable provisions of the Companies Act, 1956, and in particular Schedule XIII thereto, the Company hereby approves the terms of appointment and increase in remuneration of Mr. Lalit Kumar Modi, as an Executive Director of the Company from 30th August, 2007 till the date of the Annual General Meeting of the Company to be held for approval of audited accounts etc. for the financial year ending 31st March, 2010 as set out in the Explanatory Statement annexed to this notice and also in the draft Letter of Appointment as approved by the Board and to be issued by the Company to Mr. Lalit Kumar Modi, a copy of which is submitted to this Meeting and is for the purpose of identification, signed by the Chairman."

"AND RESOLVED FURTHER THAT the Board of Directors be and are hereby authorised to amend, alter or otherwise vary the terms and conditions of the appointment of Mr. Lalit Kumar Modi including remuneration provided that such remuneration shall not exceed the value of total remuneration set out below (which shall be mentioned in the said Letter of Appointment).

Provided that the rate of commission payable to Mr. Lalit Kumar Modi shall not exceed 1% of the net profits of the Company computed in the manner laid down under Sections 349, 350 and 351 of the Companies Act, 1956.

Provided further that the total remuneration whether as salary, commission together with the monetary value of perquisites computed in the manner provided under the Income-tax Act, 1961, or the Rules thereunder or otherwise, shall not exceed Rs. 50 lacs per annum without the approval of the Shareholders in a General Meeting."

"AND RESOLVED FURTHER THAT pursuant to the provisions of Section 309(3) read with Section 198(4) and other applicable provisions of the Companies Act, 1956 and subject to the approval of the Central Government, if required, such remuneration as aforesaid be paid and provided to Mr. Lalit Kumar Modi as minimum remuneration, notwithstanding absence or inadequacy of profits of the Company in any financial year during Mr. Lalit Kumar Modi's term of office."

"AND RESOLVED FURTHER THAT the Board of Directors be and are hereby authorised to do and perform all such acts, deeds, matters and things and to take such steps as may be necessary or desirable to give effect to this resolution."
10. As an Ordinary Resolution :

"RESOLVED THAT pursuant to Sections 198, 269, 309, 310, 311 and other applicable provisions of the Companies Act, 1956, and in particular Schedule XIII thereto, the Company hereby approves the terms of appointment and increase in remuneration of Mr. Samir Kumar Modi, as an Executive Director of the Company from 30th August, 2007, till the date of the Annual General Meeting of the Company to be held for approval of audited accounts etc. for the financial year ending 31st March, 2010 as set out in the Explanatory Statement annexed to this notice and also in the draft Letter of Appointment as approved by the Board and to be issued by the Company to Mr. Samir Kumar Modi, a copy of which is submitted to this Meeting and is for the purpose of identification, signed by the Chairman."

"AND RESOLVED FURTHER THAT the Board of Directors be and are hereby authorised to amend, alter or otherwise vary the terms and conditions of the appointment of Mr. Samir Kumar Modi including remuneration provided that such remuneration shall not exceed the value of total remuneration set out below (which shall be mentioned in the said Letter of Appointment).

Provided that the rate of commission payable to Mr. Samir Kumar Modi shall not exceed 1% of the net profits of the Company computed in the manner laid down under Sections 349, 350 and 351 of the Companies Act, 1956.

Provided further that the total remuneration whether as salary, commission together with the monetary value of perquisites computed in the manner provided under the Income-tax Act, 1961, or the Rules thereunder or otherwise, shall not exceed Rs. 50 lacs per annum without the approval of the Shareholders in a General Meeting."

"AND RESOLVED FURTHER THAT pursuant to the provisions of Section 309(3) read with Section 198(4) and other applicable provisions of the Companies Act, 1956 and subject to the approval of the Central Government, if required, such remuneration as aforesaid be paid and provided to Mr. Samir Kumar Modi as minimum remuneration, notwithstanding absence or inadequacy of profits of the Company in any financial year during Mr. Samir Kumar Modi's term of office."

"AND RESOLVED FURTHER THAT the Board of Directors be and are hereby authorised to do and perform all such acts, deeds, matters and things and to take such steps as may be necessary or desirable to give effect to this resolution."

By order of the Board

Mumbai : July 31, 2007
REGISTERED OFFICE
Chakala, Andheri (E), Mumbai - 400 099

R. Joshi
Company Secretary

Notes :

1. The Register of Members of the Company shall remain closed from 27th August, 2007 to 30th August, 2007 (both days inclusive) for the purpose of payment of dividend for the year ended 31st March, 2007.
2. A MEMBER ENTITLED TO ATTEND AND VOTE IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND SUCH PROXY NEED NOT BE A MEMBER.
3. The Dividend when declared, will be made payable on or after 6th September, 2007 to those members of the Company whose names appear on the Register of Members on 30th August, 2007.
4. Pursuant to the provisions of Section 205A(5) of Companies Act, 1956 all dividends for the financial year ended upto 31st March, 1994, which remained unpaid or unclaimed, have been transferred to the General Revenue Account of the Central Government. Shareholders concerned are requested to claim the amount of their unpaid dividends from the office of the Registrar of Companies, Maharashtra, C.G.O. Building, 2nd Floor, "A" Wing, C.B.D. Belapur, Opp. Police Commissioner's Office, Belapur (W), Mumbai. In case any assistance is required, the Registrars & Transfer Agent of the Company may be contacted.

Members may please also note that pursuant to the provisions of Section 205A of the Companies Act as amended, all amounts of unpaid or unclaimed dividends for the years ended 31st March, 1995 onwards have been and shall be transferred by the Company to the credit of Investor Education & Protection Fund established by the Central Govt. pursuant to the provisions of Section 205C of the Companies Act, 1956 after expiry of 7 years from the date of transfer in upaid dividend account.

Members are requested to write to the Registrars and Transfer Agent of the Company to obtain payment of any dividend which might be lying unpaid in their account with the Company before those are transferred to the Investor Education & Protection Fund referred to as above. It may please also be noted that the members would not be entitled to claim any amount of unclaimed dividends which have been transferred to the credit of the Investor Education & Protection Fund of the Central Government, in terms of the provisions of Section 205B of the Companies Act, 1956.

Unclaimed amount of dividends for and upto the financial year ended 31st March, 1999 have already been transferred to the Investor Education & Protection Fund in pursuance of Section 205C of the Companies Act, 1956 and such unpaid amounts for the year ended 31st March, 2000 were also transferred to the above Fund in the month of July 2007. However, unpaid dividend for the financial year ended 31st March, 2001 would become due for transfer sometime towards the end of 2008. Shareholders concerned are requested once again to claim their unpaid dividend amounts for the financial year ended 31st March, 2001 immediately so as to avoid transfer thereof in the Government account as above.

5. Members may please note that the Registrars & Transfer Agent of the Company, M/s SHAREPRO SERVICES (INDIA) PVT. LTD. operate from their office at Satam Estate, 3rd Floor, Above Bank of Baroda, Cardinal Gracious Road, Chakala, Andheri (E), Mumbai - 400 099 and they are requested to contact them for any investor related services in respect of the Company at this address or at their Investors' Service Centre located at 912, Raheja Centre, Free Press Journal Road, Nariman Point, Mumbai - 400021. Their telephone and fax Nos. and E-mail address are as under :

| | |
|---|--|
| Main Office at Andheri (E), Mumbai | Investors' Service Centre at Nariman Point, Mumbai |
| Phone : 91-22-28215168, 28329828, 28215991 | Phone: 91-22- 22881569, 22825163, |

| | |
|---------------------------|---------------------------|
| Fax: 91-22-28375646 | Fax: 91-22-22825484 |
| E-mail: sharepro@vsnl.com | E-mail: sharepro@vsnl.com |

Members are requested to bring their copy of Annual Report along with them at the Annual General Meeting. No copies of the report will be distributed at the meeting.

EXPLANATORY STATEMENT PURSUANT TO SECTION 173 OF THE COMPANIES ACT, 1956

Item No. 7 :

Mr. K.K. Modi was re-appointed as Managing Director of the Company for a period of 3 years with effect from 14th August, 2006. Keeping in view the general increases in salaries for top corporate executives in the Industry it was realised that his remuneration could be increased suitably so as to be in line with the current trend. It is accordingly proposed to increase his remuneration by allowing an increase of Rs. 50 lacs per annum by increase in his salary and commission.

The appointment and remuneration payable to Mr. Modi is subject to the approval of the members in General Meeting provided, however, that the Board of Directors shall be authorised to make variations, amendments or revision in the salary and commission within the total value of remuneration mentioned under the said Letter of Appointment from time to time without any further reference to the General Meeting. Accordingly, the approval of the shareholders is being sought for herein.

The draft of the fresh Letter of Appointment to be issued by the Company to Mr. K.K. Modi, appointing him as Managing Director of the Company at increased remuneration, contains the following material terms and conditions :

Remuneration : Mr. K.K. Modi will be entitled to the following emoluments subject to the ceiling limits laid down in Sections 198, 269, 309 of the Companies Act, 1956 and Schedule XIII thereto :

- a. Salary : Rs. 7,50,000/- per month.
- b. Commission : Commission @ 2% of the net profits of the Company computed in the manner laid down under Sections 349, 350 and 351 of the Companies Act, 1956 subject to a ceiling of Rs. 60 lacs per annum.

Provided that the salary, commission together with the monetary value of perquisites, if any, computed in the manner provided under the Income-tax Act, 1961, or the Rules thereunder shall not exceed Rs. one crore fifty lac per annum without the approval of the Shareholders in a General Meeting.

Provided further that the amount of remuneration by way of salary and commission including the remuneration received by him from Indofil Organic Industries Limited as Managing Director shall not exceed 5% of the net profits of the Company as computed in the manner laid down under Sections 349, 350 and 351 of the Companies Act, 1956.

In the event of absence or inadequacy of profits in any financial year of the Company during his tenure as Managing Director, he will be entitled to the same remuneration etc. as above subject to approval of the Central Government, if required.

Mr. Modi is currently holding the position of Managing Director in Indofil Organic Industries Limited and has been receiving remuneration as such. He is, therefore, being re-appointed as Managing Director of the Company after due compliance with the provisions of Section 316 of the Companies Act, 1956.

The Board may in the exercise of its discretion grant to Mr. K.K. Modi increments in salary or modification in commission, perquisites or benefits as may be permissible under the Government guidelines as may be in force for the time being.

During the tenure of his appointment, he will not be entitled to sitting fees for attending the meetings of the Board of Directors of the Company.

The appointment as aforesaid may be terminated by either party giving to the other six calendar months' notice in writing.

Copy of the draft Letter of Appointment to be issued to Mr. K.K. Modi, Managing Director is open for inspection by any member of the Company at the Registered Office of the Company during business hours on any

working day.

None of the directors except Mr. K.K. Modi, Mr. Lalit Kumar Modi and Mr. Samir Kumar Modi is deemed to be personally interested in the proposed resolution.

Your approval to the resolution is solicited.

The above should also be treated as the abstract of the terms of the appointment of Mr. K.K. Modi as Managing Director and the Memorandum of Interest of the Directors in the said appointment as contemplated by Section 302 of the Companies Act, 1956.

Item No. 8 :

Mr. S.V. Shanbhag was appointed by the Board as a Whole-time Director of the Company for a period of three years with effect from 1st October, 2004 on the remuneration and other terms and conditions detailed in a letter of appointment dated 1st October, 2004 issued to him by the Company. His present tenure would be expiring on 30th September, 2007. The Board of Directors at its meeting held on 20th June, 2007 has re-appointed Mr. S.V. Shanbhag as a Whole-time Director of the Company on the remuneration and the terms and conditions as set out in the draft letter of appointment approved by the Board of Directors to be issued by the Company to Mr. S.V. Shanbhag.

The remuneration payable to Mr. S.V. Shanbhag is subject to approval by the shareholders of the Company in a General Meeting. Accordingly, the approval of the shareholders is being sought for herein. The terms and conditions of appointment as above are detailed below :

- a. Duties and Powers : Subject to the supervision and control of the Board of Directors, Mr. S.V. Shanbhag, Whole-time Director, will be carrying out such duties and exercise such powers as may be entrusted to him by the Board of Directors of the Company from time to time.
- b. Tenure : Three years commencing from 1st October, 2007.
- c. Salary : Rs. 40,000/- per month (subject to an annual increment of Rs. 1,500/- per month effective from 1st April every year).
- d. Other Benefits :
 - (i) Mr. S.V. Shanbhag will be entitled to House Rent Allowance of Rs. 10,000/- per month or such amount as may be approved by the Board of Directors subject to the ceiling of 60% of his salary.
 - (ii) Provident Fund: @ 12% of the salary.
 - (iii) Medical Reimbursement: Expenses incurred by Mr. Shanbhag and his family subject to a ceiling of one month's salary per annum or two months' salary for a block of two years in accordance with the rules of the Company.
 - (iv) Leave Travel Concession: For himself and his family once in a year upto an amount of Rs. 10,000/- per annum incurred in accordance with the rules of the Company.
 - (v) The Company shall reimburse expenditure to be incurred by him on gas, electricity and water as per actuals.
 - (vi) Fees of Clubs subject to a maximum of two clubs will be allowed. This will not include admission and Life Membership Fees.
 - (vii) The Company shall pay annual premium in respect of his personal accident insurance in accordance with the Company's policy.
 - (viii) A car to be provided by the Company for use by him for the official purposes of the Company.
 - (ix) A telephone at his residence shall be provided by the Company subject to the condition that the personal long distance calls shall be borne by him.

The draft letter of appointment to be issued to Mr. S.V. Shanbhag, Whole-time Director is open for inspection by any member of the Company at the Registered Office of the Company during the business hours on any working day.

The appointment as aforesaid may be terminated by either party giving to the other three calendar months' notice in writing.

None of the directors except Mr. S.V. Shanbhag is deemed to be personally interested in the proposed resolution.

Your approval to the resolution is solicited.

The above should also be treated as the abstract of the terms of the appointment of Mr. S.V. Shanbhag as Whole-time Director and the Memorandum of Interest of the directors in the said appointment as contemplated by Section 302 of the Companies Act, 1956.

Item No. 9 :

On 28th September, 2004 the shareholders of the Company at their Annual General Meeting held on that date approved the appointment of Mr. Lalit Kumar Modi as Executive Director of the Company for a period from 1st October, 2004 till the date of the Annual General Meeting to be held for the approval of the audited accounts etc. for the financial year ending 31st March, 2007 on the remuneration and other terms and conditions detailed in a letter of appointment dated 1st October, 2004 issued to him by the Company. His present tenure would be expiring on 30th August, 2007. While considering his re-appointment for a further period the Board of Directors reviewed the remuneration payable to Mr. Modi and decided to increase the same suitably so as to bring it in line with the remuneration of Executive Directors in other organisations. The Board accordingly re-appointed Mr. Modi as Executive Director for a further period from 30th August, 2007 till the date of the Annual General Meeting of the Company to be held for approval of audited accounts etc. for the financial year ending 31st March, 2010 on the remuneration and the terms and conditions as set out in the draft letter of appointment approved by the Board at its meeting held on 20th June, 2007.

The appointment and remuneration payable to Mr. Modi is subject to the approval of the members in General Meeting provided, however, that the Board of Directors shall be authorised to make variations, amendment or revision in the salary, commission, perquisites and benefits etc. within the total value of remuneration mentioned under the said Letter of Appointment from time to time without any further reference to the General Meeting. Accordingly, the approval of the shareholders is being sought for herein.

The draft Letter of Appointment to be issued by the Company to Mr. Lalit Kumar Modi, re-appointing him as an Executive Director of the Company, contains the following material terms and conditions :

1. Duties and Powers: Subject to the supervision and control of the Managing Director and Board of Directors, Mr. Lalit Kumar Modi will be carrying out such duties and exercise such powers as may be entrusted to him by the Managing Director or Board of Directors of the Company from time to time.
2. Remuneration : Mr. Lalit Kumar Modi will be entitled to the following emoluments, benefits and perquisites subject to the ceiling limits laid down in Sections 198, 309 of the Companies Act, 1956 and Schedule XIII thereto :
 - a. Salary : Rs. 125,000/- per month subject to revision upward as may be permitted by the Government under Schedule XIII to the Companies Act, 1956 and/or as may be approved by the Board from time to time, within the permissible limits as may be subsisting for the time being.
 - b. Commission : Commission of Rs. 15,00,000/- per annum.
 - c. Perquisites : In addition to salary and commission, he shall be entitled to the following perquisites :
 - I. Rent Free Accommodation, furniture and fixture valued in accordance with the provisions of Income-tax Act, 1961.
 - II. Expenditure on gas, electricity and water to be borne by the Company.
 - III. Two personal attendants to be provided by the Company.
 - IV. Contribution to Provident Fund, Gratuity and Super Annuation Fund as per the respective rules of the Company.
 - V. He will be entitled to 30 days privilege leave in a year and encashment of unavailed portion thereof at the end of the tenure of his appointment.
 - VI. Medical Reimbursement: Expenses incurred for himself and his family, subject to a ceiling of one month's salary in a year or three month's salary over a period of three years.
 - VII. Leave Travel Concession: For himself and his family, once in a year, incurred in accordance with the rules of the Company.
 - VIII. Club Fees: Fees of clubs subject to a maximum of two clubs.
 - IX. Personal Accident Insurance: Premium not to exceed Rs. 4,000/- per annum.
 - X. Provision of car for use on Company's business and telephone at residence will not be considered as perquisites. Personal long distance calls on telephone and use of car for private purpose shall be billed by the Company to him.

Provided however, that the rate of commission payable to him shall not exceed 1% of the net profits of the Company computed in the manner laid down under Sections 349, 350 and 351 of the Companies Act, 1956.

Provided further that the salary, commission together with the monetary value of perquisites computed in the manner provided under the Income-tax Act, 1961, or the Rules thereunder shall not exceed Rs 50 lacs per annum.

In the event of absence or inadequacy of profits in any financial year of the Company during his tenure as Executive Director, he will be entitled to the same remuneration etc. as above.

The Board may in the exercise of its discretion grant to Mr. Lalit Kumar Modi increments in salary or modification in commission, perquisites or benefits as may be permissible under the Government guidelines as may



ATTENDANCE SLIP

GODFREY PHILLIPS INDIA LIMITED
Registered Office : Chakala, Andheri (E), Mumbai-400 099

PLEASE COMPLETE THIS ATTENDANCE SLIP AND HAND IT OVER
AT THE ENTRANCE OF THE MEETING HALL

(Reg. Folio No./ Client ID & Name of the Shareholder/Joint holders
& Address as given on the envelope)
(IN BLOCK LETTERS to be furnished below)

I hereby record my presence at the Seventieth Annual General Meeting
of the Company on Thursday, the 30th August, 2007.

SIGNATURE OF THE
SHAREHOLDER OR PROXY

NOTES:

- Shareholders/Proxyholders are requested to bring the attendance slip with them when they come to the meeting and hand it over at the gate after affixing their signature on it. No attendance slip will be issued at the time of the meeting.
- Shareholders who come to attend the meeting are requested to bring their copies of the Annual Report with them.
- Shareholders are requested to advise, indicating their Folio/Account Nos., the change in their addresses, if any, to the Company's Registrars & Transfer Agent.



PROXY

GODFREY PHILLIPS INDIA LIMITED
Registered Office : Chakala, Andheri (E), Mumbai-400 099

(Reg. Folio No./ Client ID & Name of the Shareholder/Joint holders
& Address as given on the envelope)
(IN BLOCK LETTERS to be furnished below)

I/We.....

of

being a member/members of GODFREY PHILLIPS INDIA LIMITED hereby appoint

.....of.....or failing him

.....of.....or failing him

.....of.....or failing him

as my/our Proxy to vote for me/us and on my/our behalf at the Seventieth Annual General Meeting of the company to be held on Thursday, the 30th August, 2007 and at any adjournment thereof.

Signed this.....day of2007

Please
Affix Re.1
Revenue
Stamp

The proxy must be returned so as to reach the Office of the Company's Registrars & Transfer Agent not less than FORTY EIGHT HOURS before the time for holding the aforesaid meeting.